

ORIGINALDecision No. 50609

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PINE FLAT WATER COMPANY)
 a California Corporation, for water) Application No. 39586
 rate increase.) Amended

W. W. Mitchell, for applicant.C. F. Clark, for the Commission staff.O P I N I O N

By the above-entitled application filed November 27, 1957, and amended February 10, 1958, the Pine Flat Water Company, a corporation, requests authority to increase rates for water service rendered to its customers at Pine Flat, located about two miles southeast of California Hot Springs, Tulare County.

Public Hearing

After due notice to the public and to each of applicant's consumers, a public hearing in the matter was held before Examiner E. Ronald Foster on March 20, 1958, in the Capinero Lodge at Pine Flat. Of the total number of approximately twenty consumers present at the hearing, only two voiced any opposition to the proposed increase in water rates. Evidence was introduced by three witnesses on behalf of applicant and by two members of the Commission staff, following which the matter was submitted and is now ready for decision.

Applicant's Operations

The major portion of the water system was installed between 1923 and 1925 by the Myers Land Company in connection with its development of the Pine Flat summer resort properties, approximately

3750 feet above sea level, in Sequoia National Forest. The Pine Flat Water Company was organized in 1947 and a certificate of public convenience and necessity to serve the Pine Flat subdivided area was granted to applicant by Decision No. 42920, dated May 24, 1949, in Application No. 29957. The applicant's presently effective rates were also authorized by that decision.

In the meantime, under authority granted by this Commission, applicant has issued and sold 628 shares of its capital stock at \$10 per share, totaling \$6,280, the proceeds from which, together with funds from other sources, have been used for additions to plant needed to improve the water supply, storage and distribution facilities.

Description of the System

The water supply is obtained from five springs located on Sequoia National Forest land, the main source being known locally as Cold Spring. A 2-hp centrifugal pump is available with a 500-gallon pressure tank to increase output and pressure, if needed, but system improvements made since 1955 have practically eliminated this need under present demands. The water supply is presently not treated, water samples being taken and tested periodically by the Tulare County Health Department.

Storage facilities consist of a 28,000-gallon concrete reservoir and two steel tanks with capacities of about 6,000 and 25,000 gallons, making a total available storage of approximately 59,000 gallons. A total of about 30,000 feet of transmission and distribution mains vary in size from 3/4-inch to 6-inch in diameter. There are also 12 fire hydrants.

At the end of 1957 there were approximately 130 services, all consumers being billed on a flat rate basis. There are meters installed on a few services which are read only as a means of checking unusual use of water or careless practices at times of a possible deficiency in the supply, but no charges have been made on the basis of such meter readings. There are about 25 consumers who reside at Pine Flat the year around, the rest being seasonal users.

Present and Proposed Rates

The following tabulation presents a comparison of applicant's present rates, which have been in effect since June 13, 1949, with its proposed rates:

Meter Rates

Item	Present		Proposed	
	Per Meter per Month	Per Meter per Year	Per Meter per Month	Per Meter per Year
Minimum Charge:				
For 5/8 x 3/4-inch meter	\$1.50	\$16.50	\$ -	\$24.00
For 3/4-inch meter	1.85	20.00	-	28.00
For 1-inch meter	2.75	30.00	-	42.00
For 1-1/2-inch meter	3.65	40.00	-	56.00
For 2-inch meter	5.50	60.00	-	84.00

Quantity Rates:

First 500 cu.ft. or less	\$1.50	-	\$2.00	-
Next 1,500 cu.ft., per 100 cu.ft. ..	.25	-	.25	-
Next 3,000 cu.ft., per 100 cu.ft. ..	.20	-	.20	-
Over 5,000 cu.ft., per 100 cu.ft. ..	.15	-	.15	-

Flat Rates

Item	Present		Proposed per Year
	Per Month	Per Year	
For each residence or commercial enterprise receiving service:			
Through 3/4-inch service connection	\$1.90	\$21.00	\$30.00
Through 1-inch service connection	2.80	31.00	45.00
Through 1 1/2-inch service connection	3.80	42.00	60.00
Through 2-inch service connection	5.75	63.00	90.00
Capinero Lodge	-	-	60.00
For each additional dwelling on the same premises, used as rental unit, and taking water through same service connection			
	-	-	24.00

At the present time there is no filed rate for Capinero Lodge which is being charged \$42 per year by verbal agreement. It is supplied through a service connection which furnishes water also to some rental units on the same premises. At the proposed rates, the total charge would be \$60 plus \$24 for each of its rental units.

Summary of Earnings

In this proceeding evidence was presented by applicant's secretary-treasurer, a public accountant, who relied primarily upon the information contained in the application, as amended, and the exhibits attached thereto.

Following is a recapitulation of applicant's operating income and expenses for the year 1957, in relation to its invested capital, based on recorded amounts at present rates and as estimated at proposed rates, extracted from Exhibits "A", "B" and "E" of the application:

<u>Item</u>	<u>By Applicant</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenue	\$ 2,713.90	\$ 3,900.00
<u>Deductions</u>		
Source of Water Supply, Transmission and Distribution and General Expenses, Recorded to Oct. 1, 1957	1,181.74	1,181.74
Estimated Expenses for Last Quarter:		
Interest on Note	114.00	96.00
Taxes	140.00	140.00
Wages	90.00	90.00
Miscellaneous	50.00	50.00
Depreciation Expense	692.08	-
Stock Dividend at 6%	376.80	-
Increases in Operating Expense		
Additional Salary for Bookkeeper	-	240.00
Materials and Supplies	-	250.00
Caretaker's Salary	-	240.00
Taxes	-	200.00
Manager, Directors and Rent	-	360.00
Total Deductions	<u>2,644.62</u>	<u>2,847.74</u>
<u>Net Income</u>	69.28	1,052.26
<u>Plant Account, Dec. 31, 1957</u>	27,682.53	27,682.53
<u>Depreciation Reserve, Dec. 31, 1957</u>	1,988.96	-
<u>Rate of Return on Plant Account</u>		3.8%

In determining the rate of return at the proposed rates, it should be pointed out that applicant has erroneously included interest on a demand note as a deduction, it has not included depreciation expense, and such rate of return has been computed on the undepreciated plant account as recorded. Had these items been taken into account, the net income of \$456.18 would represent a rate of return of 1.8 percent on \$25,693.57 of depreciated plant at the end of the year.

Experts of the Commission staff also testified and presented a report, Exhibit No. 1, showing the results of their independent investigation and study of applicant's operations for the year 1957 as recorded and adjusted, and as estimated for the year 1958, both at present rates and at the rates proposed by the applicant. The following tabulation summarizes the earnings information as developed by the staff in Exhibit No. 1:

<u>Item</u>	<u>By The Commission Staff</u>				
	<u>1957 Recorded</u>	<u>1957 Adjusted</u>		<u>1958 Estimated</u>	
		<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 2,756	\$ 2,750	\$ 3,900	\$ 2,860	\$ 4,050
<u>Deductions</u>					
Operating Expenses	1,422	2,430	2,430	2,470	2,470
Taxes Other than Income	169	310	310	330	330
Taxes on Income	26	30*	140	30*	170
Depreciation Expense	692	650	650	650	650
Total Deductions	2,309	3,420	3,530	3,480	3,620
Net Revenue	447	Loss	370	Loss	430
Avg. Depr. Rate Base	26,000	21,400	21,400	20,800	20,800
Rate of Return	1.7%	Loss	1.7%	Loss	2.1%

* California corporation tax only (rounded).

The staff's engineering witness testified that the indicated upward trend in rate of return at the utility's proposed rates will probably continue in about the same degree for the near future, assuming no appreciable changes in growth pattern for this utility.

In the staff's presentation, all revenues are based on unmetered sales with all consumers supplied through 3/4-inch service connections with the exception of Capinero Lodge. For 1958 the average number of customers was estimated at 134, compared with 129 for 1957, or an annual increase of 5 customers. Expenses for both years have been normalized to reflect salary allowances considered reasonable for a water utility of this type and size and to include certain items of expense actually incurred but not heretofore recorded on applicant's books, such as transportation and rent. An amount has been included to cover the estimated cost of the instant rate proceeding, amortized over a three-year period. A review of all of the evidence indicates that the staff's treatment of applicant's revenues and expenses, including taxes and depreciation, is realistic and reasonable.

Utility Plant and Rate Base

An original cost appraisal of applicant's investment in utility plant as of April 1, 1949, was made by the Commission's staff in connection with Application No. 29957, with utility plant valued at \$16,372.39 and a related depreciation reserve requirement of \$4,537.25, which amounts were included in applicant's annual reports to the Commission. However, the staff's examination of applicant's books revealed that as of January 1, 1955, they failed to reflect

\$1,240.82 of appraisal costs for organization expenses, springs and reservoirs, or any amount for the depreciation reserve requirement set up in the appraisal. The examination also disclosed that subsequent organization expenses and tank costs were not capitalized, that retirements totaling \$636.56 were not recorded, and that some plant expenditures were classified incorrectly.

The recorded depreciation reserve of \$1,988.96 on December 31, 1957, represents the total depreciation expense accrued since 1952, no depreciation expense having been computed by applicant prior to 1952. The staff computed that the under-accrual of depreciation expense would amount to \$1,832.31 for the period from 1949 to 1952.

In view of these disclosures, the staff recommends that adjustments be made in the applicant's books to reflect properly the investment in the various components of utility plant and also the depreciation reserve related thereto. The net effect of these recommended adjustments, as shown in Table 2-B of Exhibit No. 1, would be to increase the total utility plant on December 31, 1957 from \$27,682.53 to \$28,096.78 and to increase the depreciation reserve from \$1,988.96 to \$7,721.96 on the same date. These adjustments would involve appropriate adjustments in balance sheet accounts for capital surplus and earned surplus. At the hearing, applicant requested that the adjusted balances as of December 31, 1957, as shown in the right-hand column of Table 2-B of Exhibit No. 1, be used as the basis for adjusting its various balance sheet accounts.

In the development of the rate bases for the years 1957 and 1958, the adjusted balances as of December 31, 1957, representing utility plant and depreciation reserve have been carried forward by the staff in arriving at the weighted average utility plant and the average depreciation reserve components thereof.

The staff included in the rate bases for both years an amount of \$200 for materials and supplies considered necessary for efficient operation of the water system. A similar amount was included for each year as a working cash allowance.

In consideration of all the evidence presented, the depreciated rate bases of \$21,400 and \$20,800 for the years 1957 and 1958, respectively, as developed by the staff, are hereby adopted as reasonable for the purposes of this proceeding as representing the rate bases upon which the reasonableness of applicant's rate proposals may be tested.

Financial Position

Following is a comparative balance sheet of applicant as of December 31, 1957, as recorded, and as adjusted in accordance with the staff's recommendations:

	<u>December 31</u>	
	<u>1957</u> <u>Recorded</u>	<u>1957</u> <u>Adjusted</u>
<u>Assets</u>		
Intangible Plant	\$ -	\$ 913.00
Wells	1,416.26	893.73
Pumping Equipment	695.38	600.38
Reservoirs and Tanks	3,424.06	5,230.66
Transmission and Distribution Mains	19,060.17	18,910.17
Services	1,077.02	1,077.02
Meters	204.33	204.33
Hydrants	<u>1,805.31</u>	<u>267.49</u>
Total Utility Plant	27,682.53	28,096.78
Less: Depreciation Reserve	<u>1,988.96</u>	<u>7,721.96</u>
Utility Plant Less Reserve	25,693.57	20,374.82
Cash	685.49	685.49
Materials and Supplies	130.13	130.13
Total Assets	<u><u>26,509.19</u></u>	<u><u>21,190.44</u></u>

	<u>December 31</u>	
	<u>1957</u> <u>Recorded</u>	<u>1957</u> <u>Adjusted</u>
<u>Liabilities and Capital</u>		
Capital Stock	\$ 6,280.00	\$ 6,280.00
Capital Surplus	15,131.57	11,835.14
Earned Surplus	3,497.62	1,475.30
Note Payable	1,600.00	1,600.00
Total Liabilities and Capital	<u>26,509.19</u>	<u>21,190.44</u>

The company paid a 6 percent dividend of \$376.80 to its stockholders in 1953 and also paid the same amount as a dividend in 1957.

The staff financial witness prepared the following tabulation to show the manner in which applicant has utilized the funds available to it after the appraisal date of April 1, 1949, to the end of the year 1957:

Sources and Application of Funds
For the Period April 2, 1949 to December 31, 1957

Sources of Funds

Earnings Available from Operations	\$ 7,006.49
Proceeds from Capital Stock	6,280.00
Proceeds from Note Payable	2,000.00
Total Funds Available	<u>15,286.49</u>

Funds Applied to:

New Plant Additions	\$13,188.91
Interest Payments on Open Account	14.36
Interest Payments on Note - 6% Rate	114.00
Dividend Payments	753.60
Principal Payments on Note	400.00
Increase in Working Capital	815.62
Total Funds Applied	<u>15,286.49</u>

Customer Participation

Two sisters, living together on the same premises and thus representing only one customer service, by questions asked of the several witnesses and by oral testimony, protested against the proposed increase in rates. It appears that their protests were not so much against higher rates, as such, but against the alleged

causes for them. One maintained that past salaries had been adequate and that the proposed increases in salaries were unwarranted. She also expressed her opinion that better service would be rendered by keeping the pumps in operation instead of relying on gravity supply from the spring, even though this would entail greater pumping costs. The other pointed to the installation of certain six-inch pipe at a location where a Commission staff engineer had recommended four-inch pipe as a minimum requirement. However, they admitted that service had been improved and was now adequate to their premises since the installation of certain storage and distribution facilities in 1955.

Recommendations

The staff made certain further recommendations pertaining to depreciation accounting practices and the filing of up-to-date maps, revised rules and samples of current forms normally used in connection with customer service. The order herein will require applicant to carry out these recommendations.

Findings and Conclusions

The Commission finds and concludes that the estimates of operating revenues, expenses, including depreciation and taxes, and the rate bases as submitted by the staff for the years 1957 and 1958 are reasonable and they will be and hereby are adopted for the purposes of this proceeding.

It is evident from the record that applicant has been operating at a loss and is in need of financial relief. The Commission finds and concludes that rates substantially as proposed in the application, as amended, will not be excessive or unreasonable

and will, in fact, produce only a nominal return. Applicant will be authorized by the order which follows to file the schedule of rates substantially as proposed in the application. The proposed flat rate for additional dwelling units is ambiguous and would lead to difficult problems of enforcement. The flat rate schedule provides for higher rates for larger service connections, which eliminates the necessity for such additive rate and the special rate for Capinero Lodge. Where the utility feels that it is not adequately compensated for the amount of water used, it may install a meter.

Although applicant requested that the increased rates be made effective January 1, 1958, we find and conclude that it is not practicable to make such increased rates retroactive. Therefore, applicant will be authorized to put the new rate schedules into effect on the first day of the month following the effective date of the order. Since the schedules are designed as annual rates, it will be appropriate for applicant to rebill its customers on a proportional basis for the months of the year 1958 when the increased rates will be in effect.

The Commission finds as a fact that the increases in rates and charges authorized herein are justified and that the present rates in so far as they differ from those herein prescribed are for the future unjust and unreasonable.

O R D E R

Pine Flat Water Company, a corporation, having applied to this Commission for an order authorizing increases in rates and charges for water service rendered at Pine Flat, Tulare County,

public hearing having been held, the matter having been submitted, and now being ready for decision,

IT IS HEREBY ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity 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 this Commission and to the public, to make said rates effective for all service rendered on and after June 1, 1958.

2. Within forty-five days after the effective date of this order, applicant shall file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96, rules acceptable to the Commission governing customer relations revised to reflect present-day operating practices and samples of current forms normally used in connection with customer service. Such rules and forms shall become effective on five days' notice to the Commission and to the public after filing as hereinabove provided.

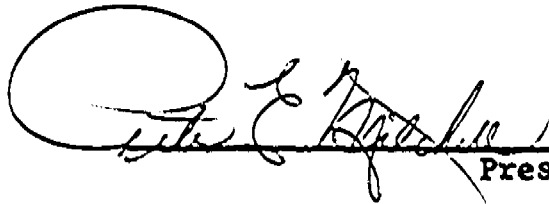
3. Within sixty days after the effective date of this order, applicant shall file with this Commission four copies of a comprehensive map drawn to an indicated scale not smaller than 300 feet to the inch, delineating by appropriate markings the various tracts of land and territory served, the principal water production, storage and distribution facilities, and the location of various water utility properties of applicant.

4. Beginning with the year 1958, applicant shall determine depreciation expense by multiplying depreciable utility plant by a

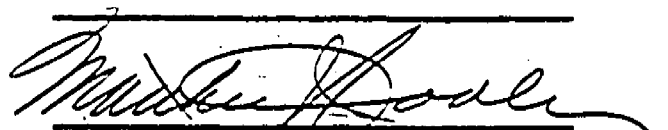
rate of 2.4 percent. This rate shall be used until review indicates it should be revised. Applicant shall review the depreciation rate using the straight-line remaining life method when major changes in utility plant composition occur and at intervals of not more than five years, and shall revise the above rate in conformance with such reviews. Results of these reviews shall be submitted to this Commission.

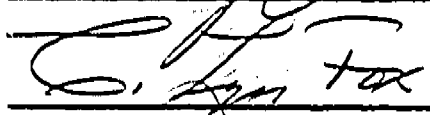
The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 29th day of April, 1958.

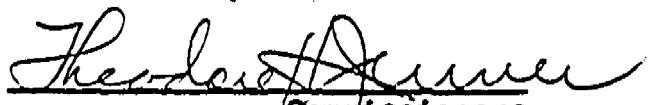


President





Commissioners



Commissioners

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

APPENDIX A
Page 1 of 2

Schedule No. 1

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community known as Pine Flat, and vicinity, located approximately two miles southeast of California Hot Springs, Tulare County.

RATES

Monthly Quantity Rates:	<u>Per Meter per Month</u>
First 500 cu.ft. or less	\$ 2.00
Next 1,500 cu.ft., per 100 cu.ft.25
Next 3,000 cu.ft., per 100 cu.ft.20
Over 5,000 cu.ft., per 100 cu.ft.15

Annual Minimum Charge:	<u>Per Meter per Year</u>
For 5/8 x 3/4-inch meter	\$24.00
For 3/4-inch meter	28.00
For 1-inch meter	42.00
For 1-1/2-inch meter	56.00
For 2-inch meter	84.00

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one-twelfth the annual minimum charge will purchase at the Monthly Quantity Rates.

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1, and is due in advance. A customer may pay the annual minimum charge in equal installments on or before January 1 and July 1.
2. 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. 2

ANNUAL GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community known as Pine Flat, and vicinity, located approximately two miles southeast of California Hot Springs, Tulare County.

RATES

Per Year

For a residence or business establishment, including premises, served from each:

3/4-inch service connection	\$30.00
1-inch service connection	45.00
1 1/2-inch service connection	60.00
2-inch service connection	90.00

SPECIAL CONDITIONS

1. The above rates apply to service during the 12-month period commencing January 1, and are due in advance. A customer may pay the yearly charge in equal installments on or before January 1 and July 1.

2. Meters may be installed at option of utility for above classifications in which event service thereafter will be furnished only on the basis of Schedule No. 1, Annual General Metered Service.

3. All service not covered by the above classifications will be furnished only on a metered basis.