

ORIGINAL

Decision No. 56911

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of SWARTHOUT VALLEY WATER COMPANY,
a corporation, to increase rates.

Application No. 38974

Robert F. Tyler, for applicant.
E. B. Hulme, for Wrightwood Property Owners'
Association, Inc., protestant.
Theodore Stein and Donald B. Steger, for the staff
of the Public Utilities Commission of the
State of California.

O P I N I O N

Public hearings in this matter were held before Commissioner R. E. Untereiner and Examiner Grant E. Syphers on March 20, 1958, at Wrightwood, California, and March 21, 1958 at Los Angeles, at which time evidence was adduced and the matter submitted, subject to the filing of certain exhibits and statements. Some of these have been filed and the time for any further filings has elapsed. The matter now is ready for decision.

The Swarthout Valley Water Company was incorporated in 1937 for the purpose of operating a water production and distribution system in the Swarthout Valley. At that time an agreement to operate the water system was entered into with the Security-First National Bank under the terms of which each customer was to be charged \$1.75 per month. The operating company was to receive 20 percent of the net proceeds and the remaining 80 percent was to be turned over to the bank in payment for its investment. The operating company had the option of purchasing the water properties for \$60,000. Subsequently, the water company exercised its option to purchase, and

was granted a certificate of public convenience and necessity from this Commission.

As of the present time all shares of the applicant corporation are owned by Lloyd S. and Helen R. Nix. These two individuals, a husband and wife, also own the Wrightwood Company which is engaged in the development of the Wrightwood area.

The present and proposed rates are as follows:

| <u>Quantity Rates:</u> | | <u>Per Meter Per Year</u> | |
|-----------------------------------|-----------------------------------|---------------------------|-----------------|
| | | <u>Present</u> | <u>Proposed</u> |
| First | 6,000 cu.ft. or less | \$ 21.00 | \$ 33.00 |
| Next | 6,000 cu.ft. per 100 cu.ft. | .315 | .495 |
| Next | 8,000 cu.ft. per 100 cu.ft. | .21 | .33 |
| Over | 20,000 cu.ft. per 100 cu.ft. | .14 | .22 |
| <u>Annual Minimum Charge:</u> | | | |
| For | ½-inch meter | 21.00 | 33.00 |
| For | 5/8 x ¾-inch meter | 21.00 | 33.00 |
| For | ¾-inch meter | 25.00 | 39.00 |
| For | 1-inch meter | 33.00 | 51.00 |
| For | 1½-inch meter | 50.00 | 68.00 |

The minimum charge will entitle the customer to the quantity of water which the annual minimum charge will purchase at the quantity rates.

The equipment and facilities of the Swarthout Valley Water Company are maintained by another company known as the Wrightwood Construction Company under an arrangement whereby the water company requests any particular work it desires done and pays the Wrightwood Construction Company therefor. So far as this record is concerned, these arrangements appear to be reasonable.

The applicant contended that under its present operations it is losing money, and in this connection presented testimony and exhibits. A representative of the staff of the Commission likewise presented a study concerning the applicant's operations, which

indicated that for the year 1956 it received a net revenue of \$1,594, which resulted in a rate of return of 3.2 percent on a rate base of \$49,602. Likewise both the company and the staff presented estimates as to the results of operations under present and proposed rates. These are summarized as follows:

| | <u>Present Rates</u> | | <u>Proposed Rates</u> | |
|--------------------|----------------------|--------------|-----------------------|--------------|
| | <u>Applicant</u> | <u>Staff</u> | <u>Applicant</u> | <u>Staff</u> |
| Operating Revenues | \$ 20,190 | \$ 18,665 | \$ 29,096 | \$ 28,470 |
| Expenses | 26,325 | 15,824 | 27,332 | 19,028 |
| Net Revenues | (5,135) | 2,841 | 1,764 | 9,442 |
| Rate Base | 110,833 | 54,916 | 110,410 | 54,916 |
| Rate of Return | - | 5.2% | 1.6% | 17.2% |

(Red Figure)

It should be noted, as to the estimates under proposed rates, that the staff's estimate is for the year 1957, whereas, the applicant's estimate is for the year 1958. However, considering the conditions under which this company conducts operations, these figures still afford a basis for comparison. The differences between the two estimates as to expenses under proposed rates amount to \$8,304. The principal reason for this difference stems from the fact that the company estimates include certain items which the staff has transferred to capital accounts, and also certain items which the staff has allocated over a period of years rather than to include them all in the year under comparison. The staff's treatment of expenses we find to be reasonable, and it will be used herein.

The principal difference in the two studies is to be found in the estimates of rate base. The evidence discloses that the company included in its rate base estimates certain so-called

advances in aid of construction amounting to \$28,966.58, whereas the staff excluded these advances. The record shows that the Security-First National Bank of Los Angeles was the trustee for the Wrightwood Trust, the beneficiaries thereof being Mr. and Mrs. Nix who are the owners of the applicant water company. Since 1946 this trust has expended the above sum of money which was used in developing the water company. The expenditures were made entirely at the direction of and under the control of the beneficiaries.

The question presented by these transactions is whether or not they constitute an investment by the owners, or a contribution in aid of construction. The monies paid by the trust were used for the installation of water mains in Tracts Nos. 2737, 2999, 2762 and 2790, as well as for a 150,000-gallon storage tank. The subdivider of these tracts was the Wrightwood Company which, as previously has been indicated herein, is owned by the owners of the water company. It was the position of the applicant that these expenditures were investments made by the owners of the water company.

The evidence also discloses that there were other tracts subdivided by the Wrightwood Company, in which water systems were installed by the subdivider. Exhibits Nos. 6 to 10, inclusive, are copies of agreements relating to these tracts. Included are Tracts Nos. 5461, 5243, 4804, 4277 and 4498. For the systems thus installed the water company agreed to repay the subdivider at the rate of 22 percent of the revenue received from the operation of the water facilities in each particular tract for a period of 20 years, or until the cost of installation is repaid, whichever event occurs first.

In the light of this evidence we now find that the sum of \$28,966.58 was invested in the water system by the owners thereof. These monies were paid at the direction of the owners of the water company, and were not derived from subdividers as a condition of receiving service. These monies were used to improve the water system. There are no refund agreements pertaining thereto.

Likewise, the staff in its estimate of the rate base failed to show certain additions to the plant which were made in 1957. These consisted of certain water lines, meters, and other equipment which were put in during that year. The amount of the additions in excess of those allowed in the staff estimate is approximately \$20,000.

Giving effect to these corrections, we find a reasonable rate base for this utility, as of the end of the year 1957, to be approximately \$104,000. With such a rate base the proposed rates would result in a rate of return, using the staff's estimates of revenues and expenses, of about 9 percent.

In the light of the particular situation here involved, we find that applicant is entitled to some rate relief, but not to the extent requested. The proposed rates generally amount to increases of over 50 percent more than the existing rates. The applicant will not be allowed to increase its rates to this extent, but in lieu thereof will be authorized in the ensuing order to increase rates as therein specified. These rates will result in average increases of approximately 30 percent and result in a rate of return of 6.5 percent on the rate base of \$104,000, heretofore found reasonable.

Giving effect to all of the evidence adduced herein, we now find that the present rates of this utility, so far as they differ from those hereinafter prescribed, are for the future unjust

and unreasonable. We further find that the rates hereinafter prescribed are for the future just and reasonable and that the increase represented thereby is justified.

There was testimony presented by a representative of the Wrightwood Property Owners' Association, Inc., to the effect that certain parts of the existing water system are substandard. The ensuing order will require that the utility make a pressure survey throughout its system and use the data so obtained as the basis for the design of changes in its distribution center so as to bring the pressure in all present and future service areas within the limits of the requirements of General Order No. 103.

O R D E R

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

IT IS ORDERED:

(1) That the Swarthout Valley Water Company, a corporation, be and it is authorized to file in quadruplicate with this Commission, after the effective date of this order, in conformity with General Order No. 96, the schedule of rates as shown in Appendix A attached hereto, and upon not less than five days' notice to the Commission and to the public to make said rates effective for general metered service rendered on and after August 1, 1958.

(2) That applicant shall within sixty days after the effective date of this order file four copies of a comprehensive map drawn to an indicated scale not smaller than 600 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.

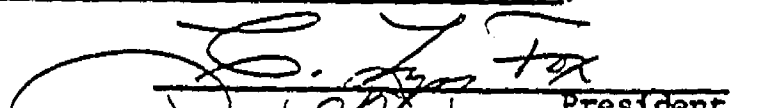
(3) Within sixty days after the effective date of this order the applicant shall submit to this Commission the results of a pressure survey covering its system, and also a plan for making changes in the distribution system with an end to bringing the pressure in all present and future service areas within the limits of the requirements of General Order No. 103.

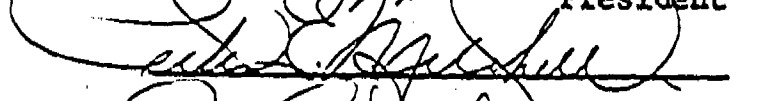
(4) That applicant shall base the accruals to depreciation upon spreading the original cost of plant, less estimated net salvage and depreciation reserve, over the estimated remaining life of the plant; and shall review the accruals when major changes in plant composition occur and for each plant account at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.


(5) That applicant shall hereafter maintain its books and records in accordance with the Uniform System of Accounts prescribed by this Commission for water utilities.


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

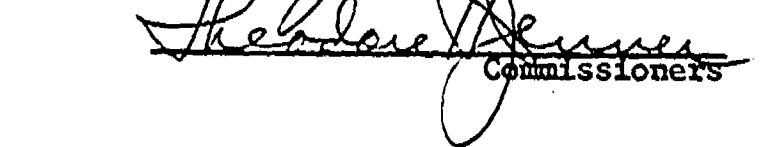
Dated at San Francisco, California,
this 1st day of JULY, 1958.



President








Commissioners

APPENDIX A

Schedule No. 1

ANNUAL GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Wrightwood and vicinity, San Bernardino County.

RATES

| | <u>Per Meter</u> <u>Per Year</u> |
|---|-------------------------------------|
| Annual Quantity Rates: | |
| First 6,000 cu. ft. or less | \$ 28.00 |
| Next 6,000 cu. ft., per 100 cu. ft. | .42 |
| Next 8,000 cu. ft., per 100 cu. ft. | .28 |
| Over 20,000 cu. ft., per 100 cu. ft. | .19 |
| Annual Minimum Charge: | |
| For $\frac{1}{2}$ -inch or $\frac{5}{8} \times \frac{3}{4}$ -inch meter | 28.00 |
| For $\frac{3}{4}$ -inch meter | 33.00 |
| For 1-inch meter | 44.00 |
| For $1\frac{1}{2}$ -inch meter | 62.00 |

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

SPECIAL CONDITION

1. The annual minimum charge applies to service during the 12-month period commencing June 1, and is due in advance.
2. Charges for water used in excess of the quantity which the annual minimum charge will purchase may be billed monthly, bi-monthly, quarterly, or annually at the option of the utility.