

ORIGINAL

Decision No. 58920

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
 WM. G. & FANNIE E. HASTE dba TAHOE)
 CEDARS WATER COMPANY for an increase)
 in rates for water service in portions)
 of El Dorado and Placer Counties.)

Application No. 40258
 (Amended)

William G. Haste, in propria persona, for applicants.
Mrs. E. L. McCullough, for residents of Tahoe Cedars
 Tracts, protestant.
Louis J. Celio, for Tahoe Cedars Property Owners
 Association, interested party.
C. F. Clark and Wallace F. Epolt, for the Commission
 staff.

O P I N I O N

Wm. G. Haste and Fannie E. Haste, doing business as Tahoe Cedars Water Company, by the above-entitled application filed July 15, 1958 and amended by filing of August 1, 1958, request an order of this Commission authorizing increases in rates and charges for water service rendered to the inhabitants of Tahoe Cedars Tract and various other subdivisions and adjacent unsubdivided areas, located on both sides of State Highway No. 89 near the community of Tahoma on the westerly shore of Lake Tahoe, in El Dorado and Placer Counties.

Applicants propose revised schedules of both seasonal flat and meter rates designed to produce approximately 43 per cent more revenue than the rates presently in effect, in order to provide maintenance and operation expenses and to realize a reasonable return on invested capital, thereby placing the utility in a sound financial position to attract capital to provide additional facilities.

Public Hearing

After due notice a public hearing on this application was held before Examiner E. Ronald Foster on September 5, 1958 at Tahoe City and on December 18, 1958 in San Francisco. The first day of hearing was attended by 15 or more of applicants' customers, a few of whom indicated their opposition to the magnitude of the proposed increase in water rates but appeared convinced by applicants' presentation that some increase would be justified.

The second day of hearing was mainly devoted to the presentation of the Commission staff's report showing the results of its independent investigation and study of applicants' water utility operations, at the conclusion of which the matter was submitted and is now ready for decision.

History and Description of the System

The major portion of the water system was constructed in 1930 to serve over 900 lots in the areas known as Tahoe Cedars Tract and Tahoe Cedars Addition. Some additional pipelines have since been installed to serve other tracts and adjacent areas.

A certificate of public convenience and necessity to operate the system as a public utility was granted to R. H. Strosnider by Decision No. 33334 dated July 16, 1940, in Application No. 23162. He was authorized to extend the certificated area and to increase rates by Decision No. 43378 dated October 11, 1949, which rates are those now in effect. By Decision No. 49968 dated April 27, 1954, in Application No. 35341, the water utility properties were transferred to William G. Haste and Fannie Haste, the present owners.

The water supply for the system is obtained from Lake Tahoe through two 3-inch suction lines extending about 200 feet from the shore. The water is pumped alternatively by 10- and 15-horsepower

electric motor-driven turbine units through a 4-inch transmission main about 5,700 feet long into an 8,000-gallon covered, galvanized sheet iron tank located at an elevation of about 190 feet above the normal lake level. The operation of the pumps is automatically controlled by means of a float switch at the tank, the starter switches being so arranged that either pump can be used but not both at the same time. The transmission main also serves as a distribution line interconnecting with smaller pipes to form a circulating distribution system. There is a total of about 43,000 feet of piping, of which approximately 7,500 feet consist of 4-inch pipe and the remainder is almost all 2-inch pipe. Blow-off and drain valves are fitted with fire hose connections to provide some fire protection service for the area.

The five-month seasonal operation of the system begins on May 15 and ends on October 15 and no service is available during the winter months. As of September, 1958, there were 165 customers of which 24 were metered. Most of the premises served are single-family summer vacation residences but there are also a number of motels and other business enterprises, some of which have extensive irrigated areas. No water treatment is provided since none is considered necessary, based on periodic tests.

To provide for further growth and ensure an adequate supply of water during periods of peak demands, early in the 1959 season applicants plan to replace the existing 10-horsepower pumping unit with one of 20-horsepower capacity, to be used alternatively with the other, 15-horsepower unit now in operation.

Present and Proposed Rates

Applicants' present rates have been in effect since January 1, 1950, as authorized for the predecessor owner by Decision No. 43378, and consist of a seasonal flat rate schedule and a seasonal

meter rate schedule. The following tabulation shows a comparison of the presently filed rates with those proposed by applicants:

Residential Flat Rate Service

<u>Description</u>	<u>Per Service Per Season</u>	
	<u>Present</u>	<u>Proposed</u>
For each residence, permanent or temporary ...	\$22.50	\$32.50

General Metered Service

<u>Description</u>	<u>Per Meter Per Season</u>	
	<u>Present</u>	<u>Proposed</u>
Minimum Charge:		
For 5/8 and 3/4-inch meter	\$21.00	\$31.00
For 1-inch meter	30.00	40.00
For 1½-inch meter	55.00	*

The Seasonal Minimum Charge will entitle the consumer to the following quantity of water:

	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
Through 5/8 or 3/4-inch meter	1,000 CF	1,000CF
Through 1-inch meter	1,500	1,500
Through 1½-inch meter	3,500	*

	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>

Quantity Rates

For use in excess of quantity entitled:

Up to 4,000 cu. ft. per month, per 100 cu. ft.	\$ 0.35	\$ 0.40
Next 6,000 cu. ft. per month, per 100 cu. ft.25	.30
Over 10,000 cu. ft. per month, per 100 cu. ft.18	.18

*No 1½-inch meters presently in service.

Results of Operations

In their presentation at the original hearing, applicants relied upon the information and the exhibits included in the application, as amended, and their testimony was in support of the results of operations as recorded for the years 1954 through 1957 on the basis of revenues received from present rates. At the adjourned hearing,

applicants introduced Exhibit No. 1 to show recorded results for the year 1958. They made no showing of operations based on revenues computed at their proposed rates.

Applicants testified that the metered consumption of water in 1958 was appreciably less than in former years, partly due to the fact that one large metered consumer had installed his own pump to take water from the lake and his water bill had been reduced to the minimum charge, for standby service only. Applicants further testified that the approximate installed cost of the 20-horsepower pumping unit would be \$1,800 instead of \$1,200 previously estimated for the 15-horsepower replacement.

Exhibit No. 2 shows the results of the independent investigation and study of applicants' operations prepared by the accounting and engineering representatives of the Commission's staff. The following tabulation summarizes the earnings information as recorded for the year 1958 and as estimated by the staff for the years 1958 and 1959, both at present rates and at the rates proposed by applicants.

SUMMARY OF EARNINGS

<u>Item</u>	<u>Exh. No. 1</u>	<u>Staff's Exhibit No. 2</u>			
	<u>Year</u>	<u>1958 Estimated</u>		<u>1959 Estimated</u>	
	<u>1958</u>	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
	<u>Recorded</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
Operating Revenues	\$ 4,396	\$ 4,690	\$ 6,470	\$ 5,040	\$ 6,970
<u>Deductions</u>					
Operating Expenses	2,847	3,390	3,390	3,440	3,440
Taxes other than Income	206	220	220	230	230
Taxes on Income	-	100	470	150	550
Depreciation Expense	1,474	670	670	690	690
Total Deductions	4,527	4,380	4,750	4,510	4,910
Net Revenue	(131)	310	1,720	530	2,060
Avg. Depreciated Rate Base	-	16,800	16,800	16,700	16,700
Rate of Return	(Loss)	1.8%	10.2%	3.2%	12.3%

(Red Figure)

The foregoing tabulation may be further analyzed and explained as follows:

1. Revenues. Records for the years just prior to 1958 show that the revenues from metered sales have been about one-third of the total revenues, the balance having come from service at flat rates. They also reveal a total average annual increase of about 12 customers. In 1958 applicants experienced an increase of 21 customers and the staff has estimated a further increase of 14 customers in 1959. For both 1958 and 1959 the staff estimated revenues from metered sales on the basis of previous water use. However, the recorded metered deliveries in 1958 totalled only 285,400 cubic feet as compared with a normally anticipated amount of about 460,000 cubic feet, which accounts for the fact that the actual revenues as recorded for that year were nearly \$300 less than estimated by the staff. For the same metered consumption the estimated revenues at the proposed rates would be proportionately less and the rate of return would be substantially smaller than shown in the tabulation. This illustrates the fact that slight fluctuations in revenues (or expenses), on a system of this size will tend to produce significant variations in the indicated rate of return.

2. Operating Expenses. In its estimates for both years, the staff has normalized operating expenses to reflect part-time salaries considered reasonable for a water utility of this type and size, to include certain allowable expense items not heretofore charged, to adjust other expenses to average amounts for the near future, and to include the estimated cost of the instant proceeding amortized over a three-year period.

3. Taxes. Taxes other than those based on income have been estimated to cover ad valorem taxes on property devoted to public

utility purposes only and to include applicable pay-roll taxes. State and federal income taxes on the applicants' earnings have been estimated at individual income tax rates without taking into the calculation the standard deduction or their personal exemption or other income.

4. Depreciation. The annual depreciation accruals for the two test years 1958 and 1959 have been determined by the straight-line remaining life method, consistent with staff practice, and are considerably less in amount than depreciation expense accruals reported by applicants during recent years.

5. Rate Bases. In developing the rate bases, the staff has incorporated certain adjustments to the utility plant and depreciation reserve which were recorded in 1957 to recognize the appraisal of utility plant made by the Commission's staff in connection with Application No. 30070, as reflected in Decision No. 43378 in that proceeding. In addition to allowances for materials and supplies and for working cash, the staff also included in its estimates the effect, on a pro forma basis, of the replacement of the 10-horsepower pumping unit with a larger unit at an estimated cost of \$1,200. From applicants' testimony it appears that the 20-horsepower unit which they plan to install will cost \$1,800, or \$600 more than estimated by the staff. This would have the effect of increasing the average depreciated rate bases to \$17,400 and \$17,300 for the years 1958 and 1959, respectively.

6. Rates of Return. On such increased rate bases and after adjusting for taxes and depreciation affected thereby, the staff's estimated rates of return would become 9.8% and 11.8% for 1958 and 1959, respectively. The indicated upward trend in the rate of return would be considerably less, had the staff treated the pump replacement

as a 1959 plant addition necessary to keep pace with the increasing number of customers instead of including it in the rate base for 1958 to put both years on a comparable basis.

Findings and Conclusions

The evidence conclusively demonstrates that revenues from existing water rates are inadequate to meet applicants' reasonable needs and that they are entitled to rate relief. However, the rates which applicants have proposed would yield revenues somewhat greater than required to produce a reasonable return on the invested capital and they will not be authorized.

Accordingly, the order herein will authorize schedules of rates which are designed to produce revenues approximately twenty per cent greater than those obtainable at the rates now in effect. Based on the total number of customers and the metered consumption of water which can reasonably be anticipated for the years in the immediate future, the authorized rates are expected to produce the results shown in the following table:

Revised Summary of Earnings

	<u>1959 - Estimated at Authorized Rates</u>
Operating Revenues	\$ 5,900
Total Deductions	<u>4,690</u>
Net Revenue	1,210
Avg. Depreciated Rate Base	17,300
Rate of Return	7.0%

Such authorized rates, together with the indicated rate base and rate of return, we find to be reasonable in the light of all of the evidence in this proceeding. The form of the rate schedule for general metered service will be revised to a more conventional design and will provide for rates and charges for service through both

5/8 x 3/4-inch meters and 3/4-inch meters. An inspection of the water usage tabulated for the year 1958 indicates that revenues from existing customers will not be substantially affected thereby, since all such customers now served through 3/4-inch meters generally use in excess of their entitlement.

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

To the extent that the estimated costs of certain improvements and enlargements to plant have been included in the rate base hereinabove adopted, the order herein will require applicant to make such installations within a reasonable time.

Recommendations

The staff recommended that applicants replace the present 10-horsepower pumping unit with one not smaller than 20-horsepower capacity and that the installation be completed not later than July 1, 1959.

The staff made other recommendations pertaining to depreciation accounting practices and the filing of up-to-date maps and sample forms normally used in connection with customer service.

O R D E R

Wm. G. Haste and Fannie E. Haste, doing business as Tahoe Cedars Water Company, having applied to the Commission for an order authorizing increases in rates and charges for water service, public hearings having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED that:

1. Applicants are authorized to file in quadruplicate with this Commission after the effective date of this order and in conformance 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 such rates effective for all service rendered on and after May 1, 1959.

2. Within forty-five days after the effective date of this order, applicants shall file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96, a revised tariff service area map and sample copies of printed forms normally used in connection with customers' services. Such tariff service area map and forms shall become effective upon 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, applicants 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 the various water system properties of applicants.

4. Beginning with the year 1958, applicants shall determine depreciation expense by multiplying depreciable utility plant by a rate of 2.0 per cent. This rate shall be used until review indicates it should be revised. Applicants 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.

5. Not later than July 1, 1959, applicants shall have installed and placed in proper operation an electric motor-driven pumping unit not smaller than 20-horsepower capacity to replace the existing 10-horsepower unit of applicants' pumping plant. Applicants shall inform the Commission in writing within ten days after the said installation has been completed and placed in proper operation.

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

Dated at San Francisco, California, this 17th day of February, 1959.

Samuel Fox
President
John L. B. B. B.
Michael D. D.
Theodore H. H.
Ernest P. P.
Commissioners

APPENDIX A
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Schedule No. 1S

SEASONAL METERED SERVICEAPPLICABILITY

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

TERRITORY

The unincorporated territory, including Tahoe Cedars Tract and vicinity, located on both sides of State Highway No. 89 near the community of Tahoma on the westerly shore of Lake Tahoe, El Dorado and Placer Counties.

RATES

Monthly Quantity Rates:

	Per Meter Per Month
First 800 cu. ft. or less	\$ 5.25
Next 4,200 cu. ft., per 100 cu. ft.35
Next 5,000 cu. ft., per 100 cu. ft.25
Over 10,000 cu. ft., per 100 cu. ft.18

Seasonal Minimum Charge:

For the 5-month period, May 15 to October 15:

	Per Meter Per Season
For 5/8 x 3/4-inch meter	\$26.25
For 3/4-inch meter	30.00
For 1-inch meter	40.00
For 1 1/2-inch meter	60.00

The Seasonal Minimum Charge will entitle the customer to the quantity of water each month which one-fifth of the seasonal charge will purchase at the Monthly Quantity Rates.

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Schedule No. 1S

SEASONAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. The Seasonal Minimum Charge is due in advance.
2. The charge for water used in excess of the quantity allowed each month for the Seasonal Minimum Charge may be billed monthly, bimonthly, or seasonally at the option of the utility on a noncumulative monthly consumption basis.

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Schedule No. 2SR

SEASONAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated territory, including Tahoe Cedars Tract and vicinity, located on both sides of State Highway No. 89 near the community ofTahoma on the westerly shore of Lake Tahoe, El Dorado and Placer Counties.

RATE

Seasonal Charge:

For each single-family residence, including premises, for the 5-month period, May 15 to October 15	Per Service Connection <u>Per Season</u> \$27.50
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SPECIAL CONDITIONS

1. The seasonal charge is due in advance.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer for above classification in which event service thereafter will be furnished only on the basis of Schedule No. 1S, Seasonal Metered Service.