

ORIGINAL

Decision No. 58143

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
PACIFIC WATER CO., a California
corporation, under Section 454 of the
Public Utilities Code, to increase
its rates for its Rim Forest and
Arrowhead View Water Systems in
San Bernardino County, California.

Application No. 38891
Amended

(See Appendix A for List of Appearances)

O P I N I O N

Pacific Water Co., by the above-entitled application filed March 8, 1957, as amended March 26 and June 8, 1957, seeks authority to increase its rates for water service in its Arrowhead View and Rim Forest systems in the San Bernardino Mountains in unincorporated territory of San Bernardino County in the gross annual amount of \$9,560 based on the adjusted operations for the year 1957, a requested increase in gross annual revenue of 261 percent.

Public hearings were held before Examiner Stewart C. Warner on May 20 and 21, 1958, at Lake Arrowhead, and on February 4 and 5, 1959, at Los Angeles. Many customers appeared in protest at the Lake Arrowhead hearings and several appeared, also in protest, at the Los Angeles hearings.

General Information

Pacific Water Co. furnishes water service in Orange, Los Angeles, Kern, and San Bernardino Counties to in excess of 8000 customers.

The applicant operates water systems in isolated and sparsely populated areas of San Bernardino County known as its Morongo Valley, Victorville, Berdooco, and the instantly being considered Arrowhead View and Rim Forest systems. It also operates two water systems in isolated and sparsely populated areas of Kern County known as its Wasco and Lamont systems. The Orange and Los Angeles County systems are partially integrated and are located in fairly densely populated areas.

Applicant's Arrowhead View water system was acquired in 1952 for \$5,300, of which \$1,700 was cash and \$3,600 a 9-month note, by Desert Water Company, a predecessor of the applicant, from the Arrowhead View Water Corporation. By Decision No. 48996, dated August 18, 1953, in Application No. 34917, Desert Water Company was granted a certificate of public convenience and necessity covering the Arrowhead View area, and rates for water service were established by said decision. Said rates are the applicant's present rates. The Rim Forest water system was acquired in 1950 for \$2,000 by Desert Water Company from Rim of the World Mutual Water Company and Pioneer Title Insurance and Trust Company. The area was certificated to Desert Water Company and rates for water service were established by Decision No. 45467, dated March 20, 1951, in Application No. 31899. Said rates are the applicant's present rates.

The applicant maintains its general offices at 5724 Venice Boulevard, Los Angeles 19, California, and a billing office, meter shop, and two warehouses in Santa Ana. The Arrowhead View and Rim Forest systems are maintained and operated by a general maintenance employee who lives in the vicinity of these two water systems.

Description of Arrowhead View and Rim Forest Systems

As shown on the map, Exhibit No. 1, the Arrowhead View Area comprises 404 lots. Water service is furnished to 84 customers in said area. Said exhibit also shows that the Rim Forest area comprises 190 lots. Water service is furnished to 40 customers in said area. A total of 125 customers are receiving water service in the two systems.

The sources of water supply are three wells, two of which are located in the Rim Forest area at the lower elevations of the service area. One well, the so-called Rim Forest well No. 1, is the main source of supply and the pumps installed therein produce $3\frac{1}{2}$ gallons a minute. Rim Forest well No. 2 must be pumped on an intermittent basis - $3\frac{1}{2}$ minutes on, $16\frac{1}{2}$ minutes off - and its production capacity is 55 gallons per minute. Applicant's Arrowhead View well, also pumped intermittently - 1 minute on, 14 minutes off - produces 2 gallons per minute.

Water is pumped from the Rim Forest wells to a 110,000-gallon storage tank located in the lower portion of the Arrowhead View system and is boosted therefrom to two storage tanks at elevation 5942 feet. Said latter tanks' storage capacity totals 33,407 gallons. The Arrowhead View well pumps directly into the high level tanks. A 7500-gallon storage tank is located at elevation 5823 feet.

Charts 3D and 3E of Exhibit No. 3 are schematic diagrams of wells, pumps and tanks in the Rim Forest system.

Sources of water supply in this area of the San Bernardino Mountains have been meager and the record shows that applicant has had great difficulty in securing adequate sources of water supply

for its customers, having drilled two horizontal wells unsuccessfully and having had three other wells dry up. Applicant's Rim Forest well No. 1 was drilled in 1957 and has, thus far, proved to be a reliable source of water supply.

Rates

As noted heretofore, applicant's present rates for its Arrowhead View and Rim Forest systems were established by Decisions Nos. 48996 in August, 1953, and 45467 in March, 1951, respectively. The following tabulation is a comparison of the present rates for the Arrowhead View and Rim Forest areas with those proposed in the application and those authorized hereinafter:

COMPARISON OF PRESENT, PROPOSED AND AUTHORIZED RATES

		<u>Per Meter Per Month</u>			
		<u>Present</u>		<u>Proposed</u>	<u>Authorized</u>
		<u>Arrowhead View</u>	<u>Rim Forest</u>		
Quantity Rates:					
First	300 cu. ft., or less	\$ 2.00		\$ 8.00	\$ 6.00
Over	300 cu. ft., per 100 cu. ft.60		.60	.60
First	800 cu. ft., or less		\$ 2.00		
Next	2,200 cu. ft., per 100 cu. ft.25		
Over	3,000 cu. ft., per 100 cu. ft.20		
Minimum Charge:					
		<u>Per Meter Per Year</u>			
		<u>Present</u>		<u>Proposed</u>	<u>Authorized</u>
5/8 x 3/4-inch meter		\$ 24.00	\$ 24.00	\$ 96.00	\$ 72.00
1-inch meter		48.00	48.00	120.00	84.00
1 1/2-inch meter		90.00	90.00	180.00	120.00
2-inch meter		120.00	186.00	240.00	204.00

As noted in the preceding tabulation, applicant proposes to eliminate the present differential between the rates applicable to the Arrowhead View and Rim Forest systems. The record shows that in the Arrowhead View system, 80.36 percent of the customer bi-months in the year 1956 were in the consumption block of 0 to 300 cubic feet. The customers falling in this consumption category are charged \$2.00 per month, or \$24.00 per year. At the proposed rates their charge would be \$8.00 per month, or \$96.00 per year, an increase of 300 percent. At the authorized rates such charge would be \$6.00 per month, or \$72.00 per year, an increase of 200 percent. The record shows that in the Rim Forest system, 50.69 percent of the customer bi-months in the year 1956 were in the consumption block of 0 to 500 cubic feet. The customers falling in this consumption category are charged \$2.00 per month. At the proposed rates the charge for 500 cubic feet of usage would be \$9.20, an increase of 360 percent. At the authorized rates such charge would be \$7.20, an increase of 260 percent.

Earnings

Exhibit No. 3 is a Results of Operation Report on the Arrowhead View and Rim Forest systems for the year 1956 recorded and the year 1957 estimated, submitted by applicant's consulting engineering witness.

Exhibit No. 8 is a report on applicant's Results of Operation of the Arrowhead View and Rim Forest water systems for the year 1956 and 1957 recorded, and the year 1957 adjusted submitted by Commission staff engineering witnesses. The earnings' data contained in Exhibits Nos. 3 and 8 is summarized in the following tabulation:

SUMMARY OF EARNINGS

Item	Year 1957:		Year 1957 Adjusted			
	Recorded:		Present Rates		Proposed Rates	
	Per P.U.C.:	Per Co.	Per P.U.C.:	Per Co.	Per P.U.C.:	Per Co.
	Ex. 8	Ex. 3	Ex. 8	Ex. 3	Ex. 8	Ex. 3
Operating Revenue	\$ 3,552	\$ 3,612	\$ 3,660	\$ 14,446	\$ 13,220	
Operating Expenses	7,147	10,690	5,074	10,735	5,074	
Depreciation	1,940	1,634	1,853	1,634	1,853	
Taxes	1,620	1,678	(1,277)	1,678	3,879	
Total Oper. Exp.	10,707	14,002	5,650	14,047	10,806	
Net Oper. Revenue	(7,155)	(10,390)	(1,990)	399	2,414	
Rate Base	-	71,235	51,700	71,235	51,700	
Rate of Return	-	(14.59%)	(3.85%)	0.56%	4.67%	

(Red Figure)

Both the applicant and the staff submitted results of operations for the year 1957 as a test year. The record shows no growth or change of operations during 1958 or any anticipated growth in the immediately foreseeable future.

Analysis of the preceding tabulation and a review of the record show that the staff estimate of operating expenses contemplated the operation of the water system by electrically controlled automatic equipment on the pumps and storage tanks. The staff engineer testified that this type of operation would substantially reduce the operation and maintenance and labor expenses and he testified that in his opinion the operating payroll should amount to \$1800 a year with an allowance of an additional \$600 per year for capital labor, a total of \$2,400. The present salary of the operating and maintenance employee is \$300 per month, including the furnishing by

the employee of his own truck at his own expense for gas and oil, but the record shows that he spends but from four to six hours per day on the average in his work. A resident customer, who appeared at the Los Angeles hearing, offered to supervise the operation of the water system for \$100 a month. Also, it was suggested that maintenance labor be employed on an hourly basis.

The staff modified the amount of utility plant for contributions in aid of construction by \$636; nonoperative property by \$5,763; duplicated charges, \$3,460; writeups of historical cost, \$8,253; and excess mains, \$4,800; for a total of such modifications of \$22,912, all as shown in Chapter 10 of Exhibit No. 8.

The record, as heretofore noted, shows that the applicant acquired the two water systems involved herein for substantially less than their historical cost; that customers paid \$40 each to the Rim of the World Mutual Water Company; and that in the Arrowhead View system, the applicant had recorded the costs of mains, meters and services substantially in excess of their estimated historical cost. The staff engineer testified that in modifying the estimated original cost of the Rim Forest system plant in Account No. 343, Transmission and Distribution Mains, by the amount of \$4,800 for rate-making purposes and for this proceeding, such modification was based on the fact that the Rim Forest system area contained 190 fifty-foot lots with an average of 162 feet of distribution main per consumer. He testified further that the usual amount of such main would average 90 feet per consumer in a subdivision of this type in this locale.

Service Complaints

The record shows that due to shortages of water supply, the applicant notified all of its customers in 1957 that it was necessary to ration water to one hour's usage in the morning and one hour's usage in the evening. Such rationing was further extended to one hour of usage every 24 hours. When the applicant successfully drilled its well, now known as well No. 1, this rationing became unnecessary but customers complained of the inadequacy of the water service and their fears of possible water supply failure for fire protection purposes. All customers protested the proposed increase in rates in view of the uncertain, inadequate water service they had been receiving.

The record shows that applicant proposes to divide the Arrowhead View system into two pressure zones to improve water operating pressures in the Arrowhead View area.

Staff Recommendations

The staff recommended that, because some of the applicant's distribution mains were exposed in places and were insufficiently buried in others, they be properly protected in a permanent manner so as to reduce damage by flood or freezing. The staff also recommended that the applicant be required to complete its present program of separating the Arrowhead View service area into two pressure zones, and that automatic control equipment be installed to ensure efficient utilization of storage and pumping facilities. The record shows that the estimated cost of the automatic control installation and at least a portion of the estimated cost of pipe-line covering, together with the cost associated with the drilling of the Rim Forest

well, the building of a pump house at said well, the building of a booster pump at the said well, the installation of a 7½-hp motor, the connection of this plant to the water system, and the installation of a time clock were included in the staff rate base for the year 1957 adjusted.

Findings and Conclusions

It is evident from the record that the gross operating revenues derived from the sales of water by the applicant in its Arrowhead View and Rim Forest water systems, at the present rates, are inadequate and that the applicant is in need of and entitled to financial relief in the operations of said systems. It is further evident, however, that the rates proposed in the application are excessive and are unjust and unreasonable. The record clearly indicates that the applicant cannot be granted a normal return to operate these two water systems in the San Bernardino Mountains on the south slope thereof, at the highest elevations, along the north and south sides of the Rim of the World Highway, with the problems of securing adequate sources of water supply and with only 125 customers living in areas comprising a total of nearly 600 subdivided lots. To establish rates for the systems in a manner to produce what would be a normal rate of return would require that applicant be authorized to charge rates for water service in excess of those proposed in the application.

In view of the inadequacies of water service herein disclosed, and the economics herein outlined, it is concluded that the application should be granted in part and denied in part. The order which follows will authorize the applicant to file a new schedule of

rates applicable to its Arrowhead View and Rim Forest systems' areas which will produce estimated gross annual revenues of \$10,240 based on operations for the test year of 1957 as adjusted to normal operations for the foreseeable future. Such authorized rate increase is \$6,580 and 180 percent over the revenues at the present rates but is \$2,980 and 31 percent less than proposed and sought by the applicant in this proceeding.

It is found as a fact that the estimates of operating expenses submitted by the staff are reasonable and it is concluded that they should be adopted for the purposes of this proceeding, except that taxes based on income should be revised for the effect of lower estimated operating revenues to be produced by the rates authorized as contrasted to the rates proposed in the application. When such revision has been effected, operating expenses including depreciation and taxes will total \$9,196 and net operating revenues of \$1,044 will result. When such net operating revenues are related to a rate base of \$52,000, which is hereby found to be reasonable, a rate of return of 2.0 percent will be produced. Such rate of return and its components are found to be just and reasonable.

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

It is further concluded that the applicant should carry out the staff recommendations to properly cover exposed and insufficiently covered portions of its distribution mains; separate its Arrowhead View service area into two pressure zones; install automatic

control equipment on its pumps and tanks; and install meter or meters at each of its pumping plants where not now installed, and the ensuing order will so provide.

O R D E R

Application as amended 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 the application as amended be and it is granted in part and that Pacific Water Co., a corporation, be and it is authorized to file in quadruplicate with the Commission, after the effective date of this order, in conformity with the Commission's General Order No. 96, the schedule of rates applicable to the Rim Forest and Arrowhead View Water Systems, shown in Appendix B attached hereto, and upon not less than five days' notice to the Commission and to the public to make such rates effective for service rendered on and after May 1, 1959.

2. That applicant shall, within sixty days after the effective date hereof, install automatic control equipment on its pumps and tanks; shall separate its Arrowhead View service area into two pressure zones; shall install meters at its pumping plants; and shall report in writing to the Commission when it has complied herewith.

3. That applicant shall, within sixty days after compliance with paragraph (2) hereinabove, file four copies of a comprehensive map drawn to an indicated scale not smaller than 200 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 in its Arrowhead View and Rim Forest service area.

4. That applicant shall, within one hundred and eighty days after the effective date hereof, carry out a program of covering its exposed and insufficiently covered distribution mains in its Arrowhead View and Rim Forest service area and shall report in writing to the Commission when such program has been completed.

5. That applicant shall determine the accruals for depreciation by dividing the original cost of utility plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the plant; applicant shall review the accruals when major changes in utility plant composition occur and at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.

6. That in all other respects the application be and it is denied.

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

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

L. J. Lysen President
W. E. D. [illegible]
William D. [illegible]

Commissioners

Theodore H. Jenner
Commissioner S. EVERETT C. McKeage being
necessarily absent, did not participate
in the disposition of this proceeding.

Appendix A

Moss, Lyon & Dunn, attorneys, by George C. Lyon,
for applicant.

Mr. and Mrs. Albert N. Anderson, Robert L. Ashbrook,
William D. Bell, Mr. and Mrs. Byron L. Burditt,
Mrs. Carl L. Clement, Emory S. Corwin, Wilson
Crowder, Mr. and Mrs. Leonard B. Egley, Le Roy
Entsminger, Karl Willy Eymert, T. T. Giles,
Mr. and Mrs. Clarence E. Gustafson, Frank Holland,
Edwin N. Johnson, Henry Kliebert, Vernon Maxfield,
Cora C. McNay, Lloyd E. Mills, U. A. Morgan for E
Emma S. Morgan, George L. Pennock, George A. Plummer,
William H. Pringle, Mrs. Stewart K. Sanders, Mr.
and Mrs. Arthur L. Smith, Wallace M. Smith, Lynn L.
Steele, Bill N. Stuht, and Wilfred Tarling;
protestants.

John R. Gillanders and A. L. Gielegem for the
Commission staff.

APPENDIX B
Page 1 of 2

Schedule No. AR-1

Arrowhead View - Rim Forest Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

The unincorporated area including Tracts Nos. 2015, 2414, 2797 and 2986, and vicinity located adjacent to Rim of the World Highway, approximately three miles southwesterly of the community of Lake Arrowhead, San Bernardino County.

RATES

	Per Meter Per Month
Monthly Quantity Rates:	
First 300 cu. ft. or less	\$ 6.00
Over 300 cu. ft., per 100 cu. ft.60
	Per Meter Per Year
Annual Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 72.00
For 1-inch meter	84.00
For 1 1/2-inch meter	120.00
For 2-inch meter	204.00

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.

APPENDIX B
Page 2 of 2

Schedule No. AR-1

Arrowhead View - Rim Forest Tariff Area

GENERAL METERED SERVICE

SPECIAL CONDITIONS (Cont'd)

1. The annual minimum charge applies to service during the 12-month period commencing January 1, and is 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 bimonthly basis equal to one-sixth 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 on a noncumulative monthly consumption basis.