

ORIGINAL

Decision No. 58309

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

PAUL W. RATCLIFF and FRED T. ROLLS,
Complainants,

vs.

DEER LAKE WATER CORPORATION,
Defendant.

Case No. 6002

L. S. Howry and Amy Howry; John Sturdy
and Olive Sturdy; Bruce Fenton and
Winifred Fenton; Robert Hollands and
Delma Hollands; Gordon Lukasky and Lois
Lukasky; Horace Arter and Irene L. Arter;
Winifred Fenton, Administratrix of the
estate of Stanley Guy, deceased,

Complainants,

vs.

Deer Lodge Park Tract Water System,
Defendant.

Case No. 6006

Investigation into the rates and practices
of DEER LAKE WATER CORPORATION.

Case No. 6088

In the Matter of the Application of the
DEER LAKE WATER CORPORATION, a corpora-
tion, for an increase in rates for
water service.

Application No. 40406

George W. Sjostrand, for Ratcliff, et al, Case
No. 6002, and Howry et al, Case No. 6006,
complainants.

Horace Kalik, for Deer Lake Water Corporation,
Application No. 40406.

Parry, Holcomb & Kassel, by Thomas C. Parry, for
William B. Wright, O. L. Coker, Walter Tolman,
D. F. Sherff, and T. W. Patterson, protestants.
Chester O. Newman, for the Commission staff.

O P I N I O N

The Deer Lake Water Corporation operates a water distribution system in the area of Deer Lodge Park which is a subdivision of a portion of the NE $\frac{1}{4}$ of Section 8, T2N, R3W, S.B.B.&M., San Bernardino County, and is located about four miles northeast of Blue Jay, California. The company originally was operated by one Charles Krause, but was purchased in December of 1957 by William M. Noe who is the present owner. There are approximately 50 dwellings in the area receiving water from this water system. The source of water supply is a tunnel about 2,500 feet long and 6 feet in diameter, which has been blocked at each end and in which water accumulates. This tunnel was constructed in about 1890 and was part of a project designed to divert the water from Lake Arrowhead to the desert area lying to the north. This project was never completed and the tunnel remained unused until it was discovered that it could serve as a source of water supply for the present users. The water which accumulates therein is surface water and seepage, and it is estimated that the tunnel has a capacity of approximately 300,000 gallons.

Water is piped from this tunnel to the various users in the Deer Lake Park subdivision. Additionally, there are seven users in another area known as "Grass Valley Creek." The users in Deer Lake Park pay for their water at the rate of \$24 a year, whereas the seven users in Grass Valley Creek do not pay for their water and allegedly are using it under deeds which give them a right thereto.

Shortly after the present owner purchased the system he gave notice to the users that the water rate would be increased from \$24 to \$36 a year effective January 1, 1958, and that meters would be installed at a cost of \$50 to each consumer. Likewise, the new owner advised the users that he intended to add to the water bills the cost of scraping the roads. This situation gave rise to the complaint in Case No. 6002 wherein certain users complained as to defects in the service and also against the proposed increases in charges.

Subsequently other users filed an additional complaint in Case No. 6006 again complaining as to the service and as to the proposed increases in charges.

A hearing was held on these two complaints on February 20, 1958, before Examiner Grant E. Syphers at San Bernardino, California, and as a result thereof this Commission issued Decision No. 56529, dated April 15, 1958, declaring the Deer Lake Water Corporation to be a public utility and directing it to file rates. The rate so set was \$24 per year for each service connection. This decision was interim in nature and did not determine whether or not the seven users in Grass Valley Creek constituted a mutual water company or were part of the utility.

Under date of April 15, 1958, this Commission issued an order of investigation in Case No. 6088 "to inquire into the practices of this utility as they relate to furnishing of service, to determine whether or not certain users of the water are

in fact customers of the utility or constitute a mutual water company; and to determine the rights and obligations of the owners of the utility and the users of the water service."

On September 4, 1958, the utility filed Application No. 40406 requesting authority to increase its rates to a flat rate of \$60 per year for each service connection, and for metered rates based upon an annual minimum rate of \$60 per year per meter which would allow 500 cubic feet per month. Over that amount the proposed charge is 35 cents per 100 cubic feet.

Further hearings were held on June 10, 1958 and December 8, 1958, before Examiner Grant E. Syphers in San Bernardino on which dates evidence was adduced and on the last-named date the matter was submitted subject to the filing of late-filed exhibits. These now have been filed and the matter is ready for decision.

Technical studies were presented by both the company and the staff of this Commission showing the estimated results of operation under present and proposed rates for the year 1959. This may be summarized as follows:

Item	Present Rates		Proposed Rates	
	Company	Staff	Company	Staff
Operating Revenues	\$ 1,560	\$ 1,560	\$ 4,000	\$ 4,020
Expenses	2,200	1,400	2,200	1,400
Taxes	255	290	613	930
Depreciation	404	320	404	320
Total Operating Expenses	2,859	2,010	3,217	2,650
Net Revenue	(1,299)	(450)	783	1,370
Rate Base	13,757	11,430	13,757	11,430
Rate of Return	--	--	5.7%	12.0%

(Red Figure)

From an analysis of the foregoing studies it is apparent, and we now find, that this company is in need of rate relief. Under

both the company and staff estimates it will operate at a loss under its present rates. The principal difference between the rate base estimates under the proposed rates of the company and the staff is found in the fact that the company made an allowance of \$2,110 for the cost of the tunnel. However, there is no evidence in this record that the company or its predecessors paid anything for this tunnel and, as a matter of fact, it is questionable whether this utility owns this tunnel. Under these conditions we will make no allowance in the rate base therefor. There are other minor differences but an analysis of them leads us to conclude that the staff's estimate of rate base is reasonable. It will be approved herein.

The differences in expenses are found in the following items:

<u>Expenses</u>	<u>Estimated</u>	
	<u>Company</u>	<u>Staff</u>
Management and General	\$600	\$200
Transportation	360	50
Outside Services and Corporation Expense	200	100

The first item consists of the time spent by the owner in the operation of his utility, and the second item consists of his transportation expense in that connection. From this record we find that the owner hires help to perform maintenance and clerical work and spends little of his own time in operating the utility. Further, the abnormal amount of transportation expense estimated by the applicant for travel to and from the Los Angeles area will be non-continuing considering its testimony that the owner proposes to reside in the area. We will therefore adopt the staff estimate of these expenses. Concerning the third item of outside services and corporation expense, we will adopt the staff's estimate since this

item should not be an expense which recurs annually and the staff's estimate appears to be reasonable.

The rate of return of 12% on the staff-adopted results is clearly excessive. In the ensuing order we will authorize a flat rate of \$45 instead of the \$60 requested, which will result in a rate of return of approximately 6%. We find that this result is reasonable and that the increases in rates and charges authorized herein are justified and that present rates, in so far as they differ from those herein prescribed, for the future are unjust and unreasonable.

It should be noted that the foregoing computations and findings do not include the seven residents of Grass Valley Creek who also receive water from this tunnel. In connection with this group we now find that they in fact are conducting a mutual water company. The pipe from the tunnel to this area was installed by the original owner of the land and it was the understanding of the purchasers that they acquired ownership of this pipe from the original owner. The evidence shows that since 1945 they have not paid for using this water and that they have in fact maintained the water system. It should be noted that this water system consists of approximately 900 feet of one-inch pipe connected to the tunnel, and from this pipe the seven users have connections to their respective cabins.

There is no evidence in this record to justify the claim of the utility to ownership of this pipe or of the distribution system to Grass Valley Creek.

Returning to the users of the utility system, the evidence discloses that they are opposed to any increase in rates. However, we observe that the utility is entitled under the law the opportunity

to earn a reasonable return on its investment. We also believe that, in view of the fact that this area consists principally of mountain cabins and that many of the users are only week-end residents, the investment of the water company should be kept at a reasonable minimum. Therefore, while the staff engineers recommended that the company submit a program for completing a circulatory system, and also a program for pressure betterment, we do not believe that existing conditions warrant an order requiring the utility to go to this additional expense. Any such additional expense would obviously increase the rate base and would eventually have to be passed on to the consumers. Therefore, we now find that the present system is reasonably adequate under the present conditions. In making this finding we do not justify any defects in service, and the utility will be ordered to make every effort to obtain a permit under the California Health and Safety Code. Likewise, the utility should make reasonable efforts to keep the tunnel clean and to insure an adequate supply of potable water.

The applicant should take the necessary steps to establish ownership of the tunnel constituting its sole source of water supply or to acquire a definitive right to take water from such source. It will be required to report its progress in this respect to the Commission.

While it was recommended by the staff that the utility install meters for all services, the ensuing order will not so direct inasmuch as the evidence discloses that most of the users of the water are merely week-end residents and, further, the rates authorized herein provide a minimum charge for meter service which is identical with the flat rate service. Upon this record it does not appear likely that many of the residents will exceed the usage

permitted under the minimum meter charge. Accordingly, there is no justification on this record for requiring the additional expense of installing meters.

The evidence also indicates that some of the users have paid \$36 for water service during 1958, while the rate prescribed by Decision No. 56529 is \$24 per year. Any excess payments which have been made shall either be returned by the utility to the user or credited on that user's account against the charges for 1959, with the balance therefrom being returned.

O R D E R

Complaints, an order of investigation, and an application to increase rates, as above entitled, having been filed, public hearings having been held thereon, the Commission being fully advised in the premises and having made the foregoing findings,

IT IS ORDERED:

(1) That the Deer Lake Water Corporation, a California corporation, be and it hereby 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 shown in Appendix A attached to this order, 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 July 10, 1959.

(2) That applicant shall, within ninety days after the effective date of this order, refund to its customers any charges heretofore made in excess of the previously authorized rate of \$24 per year and shall advise the Commission in writing within ten days after such refunds have been made.

(3) That applicant shall, within thirty days after the effective date of this order, apply for a water supply permit and shall advise the Commission in writing within ten days after such application has been made.

(4) That applicant shall determine the accruals for depreciation by multiplying the depreciable utility plant by a rate of 3%. This rate shall be used until review indicates that it shall be revised, and applicant shall review its depreciation rate using the straight-line remaining-life method whenever substantial changes in depreciable plant occur and at intervals of not more than five years, and shall revise the above rate in conformity with such reviews. Results of these reviews shall be submitted to the Commission.

(5) That this order shall relate to the applicant's service in the Deer Lake Park Subdivision but shall not apply to the seven users presently located in the Grass Valley Creek area, inasmuch as these seven users have been found in the preceding opinion to be operating as a mutual water company and not as a part of the public utility herein concerned.


(6) That applicant shall, within one hundred and eighty days after the effective date of this order, sufficiently cover the shallow and exposed sections of its mains to prevent freezing and shall advise the Commission in writing within ten days after such work has been accomplished.


(7) That applicant shall, within ninety days after the effective date of this order, report to the Commission in writing as to the progress made in obtaining ownership of, or a definitive right to take water from, its present source of water supply. Applicant shall

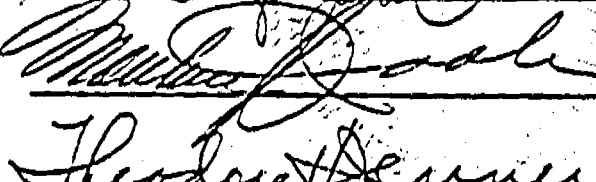
continue to make such written progress reports every ninety days thereafter until such ownership or definitive right has been established.

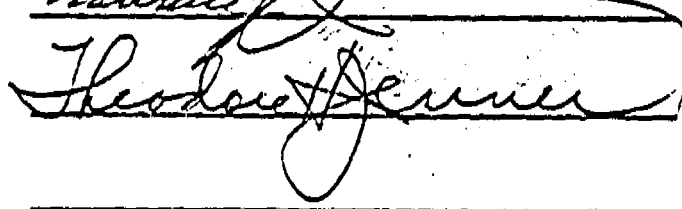
The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 21st day of April, 1959.



President






Commissioners

Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

ANNUAL GENERAL FLAT RATE SERVICEAPPLICABILITY

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

TERRITORY

The unincorporated area including the subdivision known as Deer Lodge Park, and vicinity, located approximately four miles northeasterly of the Community of Blue Jay, near Lake Arrowhead, San Bernardino County.

RATES

Monthly Quantity Rates:

	Per Meter Per Month
First 500 cu.ft. or less, included in Annual Minimum Charge	\$ -
Over 500 cu.ft., per 100 cu.ft.30

Annual Minimum Charge:

	Per Meter Per Year
5/8 x 3/4-inch meter	\$45.00

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 10 and is due in advance. A customer who has established his permanency by having paid for service for the preceding 12 months may elect to pay the annual minimum charge on a monthly basis equal to one twelfth 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 for the annual minimum charge may be billed monthly, bimonthly or quarterly at the option of the utility on a noncumulative monthly consumption basis.

APPENDIX A
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Schedule No. 2

ANNUAL GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished on an annual basis.

TERRITORY

The unincorporated area including the subdivision known as Deer Lodge Park, and vicinity, located approximately four miles northeasterly of the Community of Blue Jay, near Lake Arrowhead, San Bernardino County.

RATE

	<u>Per Year</u>
For each service connection	\$45.00

SPECIAL CONDITIONS

1. The above flat rate applies to service during the 12-month period commencing January 10 and is due in advance.
2. The above flat rate applies to service connections not larger than one inch in diameter.
3. Meters may be installed at option of utility or customer for above classification in which ovent service thereafter will be furnished only on the basis of Schedule No. 1, Annual General Metered Service.