

ORIGINAL

Decision No. 58877

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of ERNEST E. HANSEN, doing business as MEADOWBROOK WATER ASSOCIATION, for authorization to increase its rates charged for water service.

Application No. 40887

Charles W. Drake, consulting engineer, for applicant.
Russell A. Wickizer, attorney, for a group of consumer protestants; Clarence E. Boyle; William Cahill; Anthony J. Corcoran; A. M. Dempsey; Cecil M. Koontz; Mrs. O. T. Mercer; Mrs. R. L. Patterson; James C. Preston and Madeline Preston; Mrs. Herbert Ross; E. C. Tiffany; Jack Walker; J. Wallace; Mrs. Molly Vidagar; in propria personae, protestants.
Donald B. Steger, for the Commission staff.

O P I N I O N

Ernest E. Hansen, an individual, doing business as Meadowbrook Water Association, by the above-entitled application, filed February 25, 1959, seeks authority to increase his rates for water service in Tracts Nos. 3044, 3224, and 1944, in unincorporated territory of San Bernardino County in the San Bernardino Mountains on the north side of Rim of the World Drive just west of the Lake Arrowhead turnoff. The gross annual increase requested is \$2,890 based on estimated operations for the year 1959.

Public hearings were held before Examiner Stewart C. Warner on June 30 and July 1, 1959, at Lake Arrowhead. About twenty-six customers appeared in protest, and letters also protesting the application were received from eight customers and noted for and read into the record. An attorney appeared for a group of consumer

protestants but withdrew his appearance. The matter was submitted subject to the filing of late-filed Exhibits Nos. 4 and 5 by July 7, 1959. Such exhibits have been received, and the matter is now ready for decision.

General Information

Applicant furnishes water service throughout its service area which was delineated by Decision No. 35108, dated March 10, 1942, and Decision No. 38149, dated August 14, 1945, in Application No. 24524. Said area was expanded and authority to increase rates was granted by Decision No. 41133, dated January 19, 1948, in Application No. 28725. Additional authority to increase rates was granted by Decision No. 46320, dated October 23, 1951, in Application No. 32612. Applicant's service area comprises the entire 80 acres of the N $\frac{1}{2}$ of the NW $\frac{1}{4}$ of Section 28, T2N, R3W, SBB&M, as shown on the map, Exhibit No. 8. It includes 410 lots in Tract No. 1944, 18 lots in Tract No. 3044, 51 lots in Tract No. 3224, and a 22-acre parcel owned by the Lutheran Laymen's League. Of the total of 479 lots, 100 remain unsold and are owned by the applicant. Water service is now furnished to a total of 93 customers, of which one is in Tract No. 3044, one is for the Lutheran Church, and the balance are in Tract No. 1944. Of said total, 51 are metered customers, and 42 are flat rate customers. The record shows that approximately 26 customers are permanent year-round residents, the balance being week-enders and vacationers.

The sources of water supply comprise four wells with a total production capacity, with the presently installed pumping equipment, of 40 gallons per minute. The water from the principal

source of supply, applicant's well No. 2, is discharged from said well into a sump (designated by applicant as well No. 1) from which water is boosted into the distribution system and to a 10,000-gallon high-level storage reservoir. Water from applicant's well No. 4 is pumped directly into the distribution main but its production is automatically controlled by the level of water in the storage tank. The production from well No. 3 is manually controlled and said well is used for stand-by purposes. Applicant's pipe-line distribution system comprises 21,700 feet of 1-inch to 2½-inch mains, which are not interconnected into a recirculating system, and there are many dead ends. Water service is furnished to seven fire hydrants for which rental is paid to the applicant by the Arrowhead Fire Protection District.

The record shows that in the past, applicant's operations have been unsatisfactory due to frequent water outages and low pressures, but at least for the past year such operations have greatly improved and there have been no shortages of water, and pressures have, for the most part, been maintained at satisfactory levels at all times except during periods of peak demand on the water system over holiday week ends when mountain cabins are 100 percent occupied.

Applicant's filed tariffs restrict the use of water to domestic household purposes only. Such uses have been defined by the applicant to include, however, the use of water for plants and shrubs, and in the case of the two churches served in the area, the watering of their lawns.

Rates

Applicant's present rates were established by Decision No. 46320, supra, and became effective December 1, 1951. Said rates are on an annual basis, payable in May of each year.

Applicant, by the instant application, proposes to increase the annual flat rate for each single residence on a lot from \$40 to \$66, and to increase the annual metered rates correspondingly as shown in the following comparative tabulation:

<u>Quantity Rates:</u>	<u>Per Meter Per Year</u>	
	<u>Present</u>	<u>Proposed</u>
First 4000 cu. ft. or less	\$ 40.00	\$ 66.00
Next 2000 cu. ft., per 100 cu. ft.60	1.00
Over 6000 cu. ft., per 100 cu. ft.40	.65
 <u>Minimum Charge:</u>		
For 5/8 x 3/4-inch meter	\$ 40.00	\$ 66.00
For 3/4-inch meter	55.00	90.00
For 1-inch meter	65.00	110.00

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

The record shows that applicant's practice is to observe the water-use habits of customers and to install a meter when he believes such usages would exceed the minimum allowable usage of 4000 cubic feet per year. However, the record further shows that of the 51 meters installed, only 12 or 14 metered customers exceeded the minimum usage during 1958.

Many week-end customers felt that a rate should be designed to provide them with a lower annual cost because of their low, intermittent, and infrequent water usages.

Earnings

The applicant, through his consulting engineering witness, submitted, as Exhibit No. 3, a report on his results of operations for the year 1958 recorded and for the years 1958 adjusted and 1959 estimated at both the present and proposed rates. The Commission staff submitted, as Exhibit No. 6, a report on applicant's

operations for the same periods. The earnings data contained in said exhibits is summarized and compared in the following tabulation. Also shown are the results of operations' earnings data hereinafter adopted as reasonable for the purposes of this proceeding.

SUMMARY OF EARNINGS

Item	Year	Year 1959 Estimated					Adopted
	1958	Present Rates		Proposed Rates			
	Recorded	Per Co.	Per P.U.C.	Per Co.	Per P.U.C.		
	Ex. 6	Ex. 3	Ex. 6	Ex. 3	Ex. 6		
Operating Revenues	\$ 4,253	\$ 4,530	\$ 4,310	\$ 7,420	\$ 7,040	\$ 7,040	
Operating Expenses							
Source of Supply	0	50	0	50	0		
Power & Pumping	123	1,020	170	1,020	170		
Trans. & Distn.	371	1,000	390	1,000	390		
Cust. A/c & Coll.	0	430	0	460	0		
General	992	1,900	1,850	1,900	1,850		
Subtotal	\$ 1,486	\$ 4,400	\$ 2,410	\$ 4,430	\$ 2,410	\$ 3,220	
Depreciation	2,651	910	610	910	610	750	
Taxes - Other	89	290	230	290	230	250	
Taxes - Income	0	0	220	370	820	600	
Total Oper. Expenses	\$ 4,226	\$ 5,600	\$ 3,470	\$ 6,000	\$ 4,070	\$ 4,820	
Net Revenue	27	(1,070)	840	1,420	2,970	2,220	
Rate Base	-	23,750	25,140	23,750	25,140	31,650	
Rate of Return		nil	3.3%	6.0%	11.8%	7.01%	

(Red Figure)

The principal difference between the estimates of earnings' items submitted by the applicant and the staff is in the amount of the allowance to the owner. The applicant claimed an annual amount of \$2,250 for his services as owner, manager and operator of the water system, and for his wife as office clerk, whereas the staff recommended that this amount be \$1,200. The applicant also included allowances for pumping maintenance, and higher amounts for office rent and outside accounting services. Applicant also computed depreciation expense with an allowance for obsolescence.

The record shows that the staff did not include an amount of operating expense for the cost of outside labor. Such labor cost for the year 1958 amounted to \$266.65, of which \$240 was properly chargeable to operating expense.

Applicant testified that he had no plan to increase storage facilities but that he estimated the cost of an underground storage tank with a capacity of 200,000 gallons would be \$11,000, and the cost of a steel elevated tank of 50-100,000 gallons capacity would be \$8,000.

The record shows that both the applicant and the staff included in the rate base the estimated cost of installing two pipe lines which were to be located in Tract No. 3224, and the staff also included the cost of one proposed pipe line in Tract No. 3044, none of which the record shows would serve any present or immediately prospective water customers. Applicant intended to finance the cost of such installations himself.

Findings and Conclusions

From a review of the record it is evident that applicant is in need of financial relief and that he has greatly improved the water service conditions in his system.

The Commission is very conscious of the feelings of property and cabin owners in resort areas that they may be bearing a disproportionate burden in their water rates when they use their properties only over infrequent week ends or for summer vacation periods while paying an annual rate for water service. The Commission is aware, however, of the fact that it is the constant obligation of the utility to provide water service, on demand, at any time, and in any quantity for domestic use, and that this obligation

requires the water system proprietors to provide all necessary water facilities. The owners of a water system are not in a position to select the periods of demand and usage by their customers, whether such periods be over week ends, holidays, for short or long vacation periods, or during the winter snow and ice season. The owners and operators of the utility must be prepared to furnish water for customers' uses when requested. It is for these reasons that the annual rate has been adopted by the Commission, not only for the instant utility but for others in resort areas throughout California. It would be unreasonable to make any distinction in favor of week-enders and vacationers as against permanent residents, or vice versa.

It appears that in all fairness the staff estimate of salaries to be paid the Hansens should be increased from \$1200 to \$1800 per year for rate-making purposes, and that some allowance should be included for outside labor. It further appears that the cost of the capital included by the applicant and the staff in the rate base for the three proposed extensions into Tracts Nos. 3224 and 3044 should not be so included and that the rates established hereinafter should not be based on the inclusion of such cost in the rate base.

We find as a fact that the public interest requires that the applicant be ordered to install and construct a storage tank with a capacity of 100,000 gallons at an elevated position in order to more nearly guarantee that all possible demands on the water system may be met at all times, including the possible use of water storage facilities for emergency fire fighting purposes, and the order hereinafter will so provide. A sum of \$8,000 of added capital will be included in the rate base for this purpose and

depreciation expense and income tax effect would be correspondingly included in the rate of return calculation.

When the effects of the added allowances for and exclusion of operating expenses and rate base items have been considered, and based on other estimates of rate of return components submitted by the Commission staff, which are hereby adopted as reasonable, the total net revenue after operating expenses, taxes and depreciation for the year 1959 estimated at the rates proposed in the application, will be \$2,220; the depreciated rate base will be \$31,650; and the resultant rate of return will be 7.01 percent; all as shown in the earnings tabulation heretofore set forth. Said rate of return and its components are hereby found as a fact to be just and reasonable.

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

Staff Recommendations

A staff engineering witness recommended, in Chapter 10 of Exhibit No. 6, supra, that the main connecting well No. 4 to the water system should be interconnected with the 1-inch diameter dead-end main serving Block 13 to improve the service in the southwest portion of the system and to provide added carrying capacity from the well to other parts of the system. He included the estimated cost of such interconnection in his estimated rate base for the year 1959 which has been heretofore adopted as reasonable. This witness also recommended, in Chapter 12 of said exhibit, that a composite depreciation rate of 2.2 percent should be utilized by the applicant; that a comprehensive map delineating the areas and facilities of

applicant's water system be submitted; that applicant's tariff schedules should be refiled to reflect present day practices; that future construction should be in accordance with General Order No. 103; that suitable measuring devices should be installed to determine the production of each source of water supply; and that the applicant should keep a record of all service complaints. All of such staff recommendations appear to be reasonable and should further improve water service operating conditions and practices. The order hereinafter will provide that the applicant carry out the staff recommendations.

O R D E R

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

IT IS HEREBY ORDERED that:

1. Ernest E. Hansen, an individual, doing business as Meadowbrook Water Association, be and he is authorized to file in quadruplicate with the Commission, after the effective date of this order, in accordance with the requirements of General Order No. 96, the schedules of rates shown in Appendix A attached hereto, and on not less than five days' notice to the Commission and to the public to make such rates effective for water service furnished on and after September 1, 1959.
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 governing customer relations revised to reflect present-day operating

practices, a revised tariff service area map acceptable to the Commission, and sample copies of printed forms normally used in connection with customers' services. Such rules, 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, applicant shall file with this Commission 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 utility properties of applicant.

4. Beginning with the year 1959, applicant shall determine depreciation expense by multiplying depreciable utility plant by a rate of 2.2 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.

5. Within ninety days after the effective date hereof, applicant shall install and construct a storage tank with a capacity of 100,000 gallons at an elevated position, and shall connect such storage tank to his water system, and shall within ten days after the completion of such installation and construction report to the Commission in writing his compliance herewith.

6. Applicant shall, within ninety days after the effective date hereof, interconnect the dead-end distribution main in Blocks

11 and 12 leading from well No. 4 with a 1-inch diameter dead-end main serving Block 13 as set forth in the staff recommendation contained in Exhibit No. 6 and as outlined heretofore in the opinion herein, and shall within ten days after the completion of such inter-connection report to the Commission in writing his compliance herewith.

7. Applicant shall, within six months after the effective date hereof, install suitable measuring devices to permit the determination of the production of each source of supply, and shall within ten days after the completion of such installations report to the Commission in writing his compliance herewith.

8. Applicant shall carry out the staff recommendations relative to General Order No. 103 contained in Chapter 12 of Exhibit No. 6 as heretofore outlined in the opinion herein.

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

Dated at San Francisco, California, this 11th day of August, 1959.

[Signature]
 President

[Signature]

[Signature]

[Signature]
 Commissioners

Commissioner Matthew J. Dooloy, being necessarily absent, did not participate in the disposition of this proceeding.

New Page

Schedule No. 1

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area known as Meadowbrook Woods, located approximately two miles south of Lake Arrowhead, comprising the entire N $\frac{1}{2}$ of the NW $\frac{1}{4}$ of Section 28, Township 2 North, Range 3 West, San Bernardino Base & Meridian, San Bernardino County.

RATES

Per Meter
Per Year

Annual Quantity Rates:

First 4,000 cu.ft. or less	\$ 66.00
Next 2,000 cu.ft., per 100 cu.ft.	1.00
Over 6,000 cu.ft., per 100 cu.ft.65

Annual Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 66.00
For 3/4-inch meter	90.00
For 1-inch meter	110.00

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

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing May 1, and is due in advance.
2. When the annual charge is paid in advance, charges for water used in excess of the allowance under the annual minimum charge may be billed monthly, bimonthly or quarterly at the option of the utility.

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all measured water service rendered for household residential purposes only.

TERRITORY

Within the service area in unincorporated territory located approximately two miles south of Lake Arrowhead, known as Meadowbrook Woods and vicinity, San Bernardino County, and comprising the entire N $\frac{1}{2}$ of the NW $\frac{1}{4}$ of Section 28, Township 2 North, Range 3 West, San Bernardino Base & Meridian.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Year</u>
First 4000 cu. ft. or less	\$ 66.00
Next 2000 cu. ft., per 100 cu. ft.	1.00
Over 6000 cu. ft., per 100 cu. ft.65
 Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 66.00
For 3/4-inch meter	90.00
For 1-inch meter	110.00

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

SPECIAL CONDITIONS

1. The annual minimum charge per meter for each year, May 1 to April 30, shall be due and payable on or before May 10 of that year and it shall become delinquent June 1.

2. Meters will be read about the last day of August, November, February, and April and, within ten (10) days thereafter, each customer having used water in excess of that quantity which his annual minimum charge will purchase, will be rendered a statement, payable upon presentation, which will show the meter readings and the charges due.