

ORIGINAL

Decision No. 58935

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

Henry A. Frey, Isabell Frey and
Henrietta Hanks

FREY WATER COMPANY

for an increase in rates under section
454 of the Public Utilities Code for
water service in Weimar, Placer County,
California.

Application No. 40955

In the Matter of the Application of

HENRY A. FREY, ISABELL FREY AND
HENRIETTA HANKS BENNETT, formerly
Henrietta Hanks, Owners of FREY WATER
COMPANY, for an order permitting them
to sell certain property to ARTHUR COLE,
BEATRICE E. COLE, GLENN L. GUNTER and
BONNIE E. GUNTER.

Application No. 41223

Isabell Frey, for applicants in Application No. 40955.

Tindall & Tindall, by C. E. Tindall, for all applicants
in Application No. 41223.

James Roddy, for the Commission staff.

O P I N I O N

By Application No. 40955, filed March 20, 1959, Henry A. Frey, Isabell Frey, his wife, and Henrietta Hanks, their daughter, doing business as Frey Water Company, requested authority to increase the rates and charges for water service rendered in the Frey Subdivision and vicinity, near Weimar, in Placer County.

Before that matter was heard, by Application No. 41223, filed June 12, 1959, the said Henry A. Frey, Isabell Frey and Henrietta Hanks Bennett, formerly Henrietta Hanks, requested authorization to sell and transfer their public utility water system to

Arthur Cole and Beatrice E. Cole, husband and wife, and Glenn L. Gunter and Bonnie E. Gunter, husband and wife, who join in the application.

Public Hearing

The two proceedings were combined for hearing on a consolidated record before Examiner E. Ronald Foster at Applegate on June 24, 1959, prior to which time notices of hearing thereon were published, posted and mailed to all customers of the utility as required by the Commission. After evidence both documentary and oral had been presented, both matters were submitted and are now ready for decision.

History and Description of the System

The water system was initially installed to aid the sale of lots in the Frey Subdivision located near Weimar, on U. S. Highway No. 40 about five miles southwesterly of Colfax, in Placer County. By Decision No. 43745 dated February 1, 1950, in Application No. 30526, a certificate of public convenience and necessity was granted to Henry Frey, Isabel Frey and Henrietta Hanks to operate the water system as a public utility for the distribution and sale of water in the Frey Subdivision, and other unincorporated territory contiguous thereto. In the process of widening Highway No. 40 to make a freeway, in 1955 the Frey residence at Weimar was purchased and destroyed, at which time the Freys moved to Sacramento from where they have since conducted their operations.

The sole source of water supply is the Pacific Gas and Electric Company's Boardman Canal, from which the water is delivered into two concrete, 8,000-gallon, settling and storage tanks, one open and one covered. After being chlorinated, the water is pumped into the system through a 525-gallon hydropneumatic tank equipped with automatic switches to control the pressure between about 80 and 100 pounds per square inch. At the highest point in the service area,

two 1,000-gallon, steel tanks provide additional storage. The transmission and distribution mains comprise about 5,200 feet of pipe ranging in size from one to four inches in diameter. As of December 31, 1958, there were 26 residential customers supplied through 5/8 x 3/4-inch meters and three businesses supplied through 3/4-inch meters. There are no fire hydrants connected to the water distribution system.

I. PROPOSED RATE INCREASES

Present and Proposed Rates

The utility's presently filed rates have been in effect since March 1, 1950, as authorized by Decision No. 43745, in Application No. 30526. There follows a comparative tabulation of the present rates and those proposed for metered service:

<u>General Metered Service</u>	<u>Per Meter Per Month</u>			
	<u>Present:</u>	<u>Proposed:</u>	<u>Increase</u>	
	<u>Rates:</u>	<u>Rates:</u>	<u>Amount:</u>	<u>Per Cent</u>
Quantity Rates:				
First 600 cu.ft. or less	\$2.10	\$ 4.10	\$ 2.00	95.2%
Next 1,400 cu.ft., per 100 cu.ft.	.30	.50	.20	66.7
Next 3,000 cu.ft., per 100 cu.ft.	.25	.45	.20	80.0
Over 5,000 cu.ft., per 100 cu.ft.	.18	.30	.12	66.7

Minimum Charge

For 5/8 x 3/4-inch meter	2.10	4.10	2.00	95.2
For 3/4-inch meter	3.50	6.10	2.60	74.3
For 1-inch meter	5.25	9.60	4.35	82.9
For 1-1/2-inch meter	9.00	16.05	7.05	78.3
For 2-inch meter	13.50	24.15	10.65	78.9

Based on water usage during 1958, the proposed rates would increase operating revenues by about 84 percent over those obtainable at present rates.

There is also still in effect a schedule of flat rates which is not used since meters have been installed on all services; therefore, the flat rate schedule is to be withdrawn and canceled.

Summary of Showings

Exhibit No. 1 presented by applicants in Application No. 40955 shows that the total operating expenses, which included no salaries for the owners, were \$585 in excess of the operating revenue

for the year 1958. The same exhibit shows that if \$180 were allowed as owners' salary, the total expenses estimated for the year 1959 would be \$710 more than the estimated revenue at present rates.

In a report prepared by the Commission staff and introduced as Exhibit No. 2, the utility's results of operation are shown for the year 1958 recorded and adjusted and for the year 1959 estimated. The staff summary of earnings for the two years at present and proposed rates is as follows:

<u>Summary of Earnings</u>				
<u>Item</u>	<u>: 1958 Adjusted</u>		<u>: 1959 Estimated</u>	
	<u>: Present:</u>	<u>: Proposed:</u>	<u>: Present:</u>	<u>: Proposed:</u>
	<u>: Rates :</u>	<u>: Rates :</u>	<u>: Rates :</u>	<u>: Rates :</u>
Operating Revenue	\$1,210	\$2,230	\$1,255	\$2,310
<u>Deductions</u>				
Operating Expenses	1,655	1,655	1,685	1,685
Taxes Other Than Income	75	75	75	75
Depreciation	335	335	335	335
Income Taxes	-	35	-	45
Total Deductions	2,065	2,100	2,095	2,140
Net Revenue	(855)	130	(840)	170
Depreciated Rate Base	7,890	7,890	7,545	7,545
Rate of Return	Loss	1.6%	Loss	2.3%
<u>(Red Figure)</u>				

The evidence is clear, as the foregoing tabulation indicates, that revenues from existing rates are inadequate to meet the utility's reasonable needs and that revenues obtainable from the proposed rates will result in a rate of return which is not excessive nor unreasonable. The rates and charges as proposed for metered service will be authorized, except that the minimum charges for the larger meters (there being none presently in service) will be rounded to amounts more nearly consistent with their relative delivery capacities.

Customer Participation

Several customers testified in regard to the quality of service which has been rendered in recent years and expressed

themselves to the effect that the higher charges which would result from the proposed increased rates would not be warranted without corresponding improvement in service. It appears that the causes of complaint, such as muddy water, low pressure at times, and frequent shutdowns for repairs and other reasons, without advance notice, have been aggravated during the more recent years because of the absentee ownership of the water system. These witnesses appeared to be pleased with the prospect of new owners who would reside in the tract so that reports of service difficulties might receive prompt attention.

Recommendations

In addition to recommendations pertaining to depreciation practices and the filing of up-to-date maps, rules governing customer practices, and sample copies of printed forms that are normally used in conjunction with customer service, the staff recommended that:

- a. A responsible party should always be available to remedy low pressure and other service problems that may be reported by customers.
- b. The operation of the control valves at the two 1,000-gallon steel tanks on the hill should be regulated so as to make this supply of water more useful to the system in cases of low pressure or outages.
- c. There should be put into effect a regular schedule for more frequent cleaning of the settling tanks and the flushing of the mains.
- d. The utility should arrange to notify in advance all customers who would be affected in cases where the water must be turned off for a period of time and these periods should be as short as possible.

- e. Regular laboratory tests of the water should be made as stipulated in the permit granted by the Placer County Health Department.

II. PROPOSED TRANSFER OF UTILITY

Reason for Proposed Transfer

Applicants Henry A. Frey and Isabell Frey are quite aged, with failing health, and now reside in Sacramento. Their daughter, Henrietta Hanks Bennett, is married, also lives in Sacramento, and is unable to take any active part in looking after the water system at Weimar. The volume of business is insufficient to enable applicants to employ a capable manager and caretaker of the system. Applicants Frey are unable to properly manage, keep in repair and supervise the utility operations. Therefore they are anxious to accept the offer of purchase, upon approval by this Commission of the proposed transfer to applicants Cole and Gunter.

Prospective Purchasers

Arthur Cole and Glenn L. Gunter, two of the prospective new owners of the water system, were present at the hearing and heard the complaints of the customers and the recommendations of the staff. They had inspected the Frey water system and, if authorized to purchase the utility, expressed themselves as willing and able to undertake step-by-step improvements to the end of rendering satisfactory service.

The record shows that Arthur Cole is an outside salesman and plumbing estimator for a large department store, with headquarters in Auburn, some 12 miles distant. He already owns two lots in the service area, upon which he plans to build and thereafter make his home, as soon as he can dispose of his property in Sacramento. A financial statement of Arthur Cole and Beatrice E. Cole, attached to Application No. 41223 as Exhibit "C", indicates net worth of \$24,040.

According to the record, Glenn L. Gunter is a master plumber, now practicing his trade in the general vicinity of Tahoe Valley with the intention of moving his operations to Placer County within the near future. He professes to have had some experience with the installation of large water and sewage systems. A financial statement of Bonnie E. Gunter and Glenn L. Gunter, attached to Application No. 41223 as Exhibit "D", indicates net worth of \$27,141.

Offer to Purchase

Exhibit "B" attached to Application No. 41223 is an "Offer to Purchase", dated May 31, 1959 and signed by applicants Arthur Cole, Beatrice E. Cole, Glenn L. Gunter and Bonnie E. Gunter, wherein they offer and agree to purchase the physical property and good will of the "Frey Water Company", together with several lots¹ in the Frey Subdivision, for the total purchase price of \$5.00. The offer was accepted by applicant Henry A. Frey, Isabell Frey and Henrietta Hanks Bennett, subject only to securing the approval of this Commission.

The utility's annual report to the Commission for the year ended December 31, 1958, shows total utility plant in the amount of \$11,581.20 and depreciation reserve in the amount of \$4,093.97, indicating net utility plant of \$7,487.23 as of that date.

III. FINDINGS AND CONCLUSIONS

The Commission finds and concludes that the estimates of operating revenues, expenses, including taxes and depreciation, and the rate bases as submitted by the staff for the years 1958 and 1959 reasonably represent the results of the utility's operations and they will be and hereby are adopted for the purposes of this proceeding.

1 Of the several lots involved in the proposed transfer, only those lots now used and useful in the operation of the public water utility have been included in the rate bases hereinabove shown in the determination of the results of operation of the utility.

It is evident from the record that this utility has been operating at a loss and that the owners thereof are in need of financial relief. Since it is apparent that the present service would not justify the proposed rate increases, and in view of the fact that the improvements in plant facilities and in the operation of the system necessary to eliminate the causes of complaint are proposed to be provided by the prospective purchasers, the rate increases authorized herein will not be made effective until the proposed transfer is accomplished. Based on such premises, the Commission finds and concludes that revenues from the rates as proposed in Application No. 40955 will not be excessive or unreasonable and will, in fact, produce only a nominal return on the rate bases herein found to be reasonable. The order which follows will authorize the filing of the said rates and charges substantially as proposed.

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.

Furthermore, the Commission is of the opinion and hereby finds that the transfer of the public utility water system as proposed in Application No. 41223 will not be adverse to the public interest and should be authorized.

The action taken herein shall not be construed to be a finding of the value of the properties herein authorized to be transferred.

In order that the evidence of dedication to public use of the properties on which the tanks, pumps and related facilities are located, as well as easements or permits for pipelines which are not located in public streets, highways or roads, be placed on file with this Commission, the purchasers of the public utility property herein

authorized to be transferred will be required to file with the Commission documentary evidence to that effect.

O R D E R

The above-entitled applications having been filed, a public hearing having been held on both matters on a consolidated record, the said matters having been submitted for decision, and the Commission having made the foregoing findings,

IT IS HEREBY ORDERED that Henry Frey, Isabell Frey and Henrietta Hanks Bennett:

1. On or after the effective date hereof and on or before December 31, 1959, may sell and transfer their public utility water system, known as Frey Water Company, to Arthur Cole, Beatrice E. Cole, Glenn L. Gunter and Bonnie E. Gunter, substantially in accordance with the terms and conditions of the document entitled "Offer to Purchase", a copy of which is attached to Application No. 41223 herein.

2. On or before the date of the actual transfer, shall refund all customers' deposits and all advances for construction, if any, which are subject to refund. Any such unrefunded deposits and advances shall be transferred to and become the obligation for refund of Arthur Cole, Beatrice E. Cole, Glenn L. Gunter and Bonnie E. Gunter.

3. On or before the date of the actual transfer of the physical properties herein authorized, shall transfer and deliver to Arthur Cole, Beatrice E. Cole, Glenn L. Gunter and Bonnie E. Gunter, and the latter shall receive and preserve, all records, memoranda and papers pertaining

to the construction and operation of the properties herein authorized to be transferred.

4. If the authority herein granted is exercised, within ten days thereafter, shall notify this Commission, in writing, of the date of such completion of the property transfer herein authorized and of their compliance with the conditions hereof; and at the same time, shall mail a copy of such notification, or a similar notice, to Tindall & Tindall, attorneys for Arthur Cole, Beatrice E. Cole, Glenn L. Gunter and Bonnie E. Gunter.

5. Upon due compliance with all of the conditions of the preceding paragraphs of this order, shall stand relieved of all further public utility obligations and liabilities in connection with the operation of the public utility water system herein authorized to be transferred.

If the authority hereinbefore granted to Henry Frey, Isabell Frey and Henrietta Hanks Bennett to sell and transfer their public utility water system, known as Frey Water Company, to Arthur Cole, Beatrice E. Cole, Glenn L. Gunter and Bonnie E. Gunter is exercised, and after the date on which Henry Frey, Isabell Frey and Henrietta Hanks Bennett shall have notified the Commission as required by Paragraph 4 of the order herein,

IT IS HEREBY FURTHER ORDERED that Arthur Cole, Beatrice E. Cole, Glenn L. Gunter and Bonnie E. Gunter:

1. Are authorized to file in quadruplicate with this Commission, in conformance with the provisions of General Order No. 96, the schedule of rates for general metered service 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 water service

rendered on and after the first day of the next calendar month, at which time the presently filed Schedule No. 1, General Flat Rate Service, shall cease to be effective and shall thereupon be canceled.

2. Within thirty days after the notification required by Paragraph 4 of the order herein, 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 that are 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 forty-five days after the notification required by Paragraph 4 of the order herein, shall file with the Commission one copy of each appropriate document showing the dedication to public utility purposes of the lots or areas on which all tanks, pumps and related water facilities are located, and all easements or permits where water mains are located otherwise than in streets, highways or roads which are dedicated to public purposes.

4. Within sixty days after the notification required by Paragraph 4 of the order herein, shall file with this Commission four copies of a comprehensive map drawn to an indicated scale not smaller than 200 feet to an 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.

5. Beginning with the year 1959, shall determine depreciation expense by multiplying depreciable utility plant by a rate of 3.1 percent. This rate shall be used until review indicates it should be revised. Said 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.

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

Dated at San Francisco, California, this 25th day of August, 1959.

Ernest R. Faye
President
E. L. Fox
Thodore J. Doolley
Commissioners

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

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area including the Frey Subdivision, and vicinity, located near Weimar, Placer County.

RATES

Quantity Rates:		Per Meter Per Month
First	600 cubic feet or less	\$ 4.10
Next	1,400 cu.ft., per 100 cu.ft.50
Next	3,000 cu.ft., per 100 cu.ft.45
Over	5,000 cu.ft., per 100 cu.ft.30
Minimum Charge:		
For	5/8 x 3/4-inch meter	4.10
For	3/4-inch meter	6.10
For	1-inch meter	10.00
For	1½-inch meter	17.00
For	2-inch meter	26.00

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