

Decision No. 59373

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 ARROWHEAD MANOR WATER COMPANY for) Application No. 41207
 an Increase in Rates for Water Service.)
)

O P I N I O N

By application filed on June 8, 1959, Arrowhead Manor Water Company requests authority to increase rates for water service in its service area located approximately one mile southeast of Lake Arrowhead near the community of Cedar Glen. The rates requested are estimated by the staff to increase revenues by about 36%.

History of System

The first public utility water service to any portion of the territory now served by applicant was provided by E. R. Capstaff, who obtained, by Decision No. 26515 dated November 13, 1933 in Application No. 18984, a certificate of public convenience and necessity to serve several tracts in the area. A certificate to serve territory adjoining Capstaff's system was granted to Arrowhead Manor Water Company, a corporation, by this Commission in Decision No. 39396 dated September 10, 1946 in Application No. 27132. By 1955 a controlling interest in the latter corporation had been acquired by Albert L. Capstaff. E. R. Capstaff operated both the corporation's system and his own adjoining proprietorship water system. Complete corporate ownership of the two consolidated systems was effected by Decision No. 55366 dated August 5, 1957 in Application No. 38726, wherein Arrowhead Manor Water Company was authorized to purchase E. R. Capstaff's water system, then known as the Lake Brook Park Water System. The two systems have since continued to be operated as a unit

but the slight differential in rates has necessarily been continued. Applicant is now requesting that the proposed flat and meter rate schedules be made effective uniformly for all customers in both systems.

The water supply for both systems is obtained from springs and infiltration galleries. The bulk of this water has for many years been obtained from an abandoned tunnel which was originally used in the development of Lake Arrowhead. Several steel tanks provide storage for a total of 240,000 gallons of water to meet periods of peak demand. Distribution mains are steel pipe, 4 inches in diameter and smaller, most of which are of 2-inch and 2½-inch standard screw pipe.

Operating pressures vary widely due to the fact that many homes have been constructed at approximately the same level as the storage tanks. There were five pressure zones serving 426 flat rate and five meter rate customers as of June, 1959.

Rates, Present and Proposed

A comparison of this utility's present and proposed flat and meter rates is shown following:

Description	Present Rates			Proposed
	Lake Brook	Arrowhead	Park	Manor
	Per Service Connection			Per Year
<u>Flat Rates</u>				
For one single-family residence or residential unit	\$29.00	\$27.00		\$39.00
For each additional single-family residence or residential unit served from the same service connection	23.00	.22.00		20.00
<u>Meter Rates</u>				
<u>Annual Quantity Rates</u>				
First 4,500 cu. ft. or less	\$29.00	\$27.00		\$39.00
Next 1,500 cu. ft., per 100 cu.ft.35	.35		.45
Over 6,000 cu. ft., per 100 cu.ft.25	.25		.30
<u>Annual Minimum Charges</u>				
For 5/8 x 3/4-inch meter	\$29.00	\$27.00		\$ 39.00
For 3/4-inch meter	35.00	35.00		45.00
For 1-inch meter	45.00	45.00		60.00
For 1½-inch meter	60.00	60.00		80.00
For 2-inch meter	80.00	80.00		120.00

Results of Operation

Applicant in its application concludes that the proposed rates would have earned a 7.8% return at the rates it proposes and that the utility will have an operating loss of \$158 at the present rates for the estimated year 1959, as tabulated following:

Item	Estimated Year 1959	
	Present Rates	Company Proposed Rates
Operating Revenues	\$12,595	\$17,102
Operating Expenses	9,974	10,020
Depreciation Expense	1,872	1,872
Taxes	907	2,106
Subtotal Expenses	12,753	13,998
Net Revenue	(158)	3,104
Depreciated Rate Base	39,637	39,637
Rate of Return	-	7.8%

(Red Figure)

The Commission staff has estimated a 1959 adjusted depreciated rate base of \$35,600 which includes \$4,300 for necessary additions but excludes \$12,450 for certain overbuilt plant. The 1959 return on this rate base under the proposed rates is estimated by the staff to be 8.3%.

By letter dated September 22, 1959 applicant advised that a horizontal well and three new service connections had been installed, which items represent about \$1,000 of the \$4,300 of necessary additions and improvements. This letter also indicated that the improvements suggested by the staff would be completed by July 1, 1960.

Customer Response

On August 17, 1959, at the request of the Commission's staff, applicant supplied a list showing the names and addresses of

all its customers. On August 25, 1959 a letter was sent to these customers by the Commission staff. The letter provided the customers with information concerning the present rates and the rates requested by applicant, including estimated rates of return thereunder. It also indicated that an additional water supply and enlargements and replacements of mains were necessary to improve service.

The Commission received 53 replies from customers of Arrowhead Manor Water Company. About twenty of those letters indicated that service problems exist while others objected to paying for service for the entire year while using the service for cabins during only a few weeks or weekends in the summer. Most of the letters objected to having the rates increased in view of the quality of the service rendered and the short period of use.

On September 11, 1959 the water company was asked to comment on the service complaints the Commission had then received. Applicant indicated that two-thirds of these complaints had been corrected or will be corrected when the improvements outlined by the staff have been completed.

In answer to the customers who complained that they should not be required to pay annual rates when they only use water for short periods of time, the utility estimates that only about twelve customers do not use their cabins at some time during the winter months.

A water system must be constructed and maintained in such a manner that the total demands of all customers may be met. It cannot be expanded during periods of peak demand and contracted when demand is low, nor can year-round maintenance and repairs be neglected if the system is to continue to serve its customers. Many expenses, such as maintenance, taxes and depreciation are the same whether the customers are there continuously or not. The total reasonable expenses to

operate and maintain the system must necessarily be regained through the total revenues collected and this can most equitably be accomplished for a resort type of system such as this one through the establishment of annual and seasonal charges as will be provided in the rates authorized herein.

Findings and Conclusions

We are of the opinion that this utility should have seasonal, as well as annual, rates for water service. We therefore adopt the following revenues, expenses, rate base and rate of return as reasonable for the estimated 1959 operations of this utility at the rates authorized herein.

Adopted Results of Operation

Operating Revenues	\$16,500
Total Expenses	<u>13,752</u>
Net Revenue	2,748
Rate Base - Depreciated	35,600
Rate of Return	7.7%

Although applicant and the Commission's staff do not expect many of this utility's water customers to request seasonal rates, it cannot be determined accurately what revenues might be obtained when the alternative of seasonal rates is offered. The relatively small rate base adopted herein for rate-making purposes results from large amounts of subdivider advances and contributions and an adjustment for over-built plant. The Commission considers many factors without limitation to any single method or formula. The principal consideration involved is that the final result be reasonable. Under these conditions a net revenue of \$2,748 per year is found justified, which results in a rate of return of 7.7%. Further, should the adjusted gross revenues not exceed \$16,000 during the first full year of operation under the rates hereinafter authorized, applicant may file a supplemental application in this matter within a reasonable period

of time thereafter seeking additional rate relief so as to realize the gross operating revenues intended by the Commission. The seasonal rates authorized herein give consideration to the additional costs which will be incurred by applicant because of seasonal, rather than annual, billing.

Since acquisition of the Lake Brook Park Water System late in 1957, the Arrowhead Manor Water Company has been calculating depreciation expense by the straight-line remaining life method of 2.56%. Beginning in 1958, which was the first full year of combined ownership, Arrowhead Manor Water Company charged a total of \$2,293 for depreciation expense, \$483 of which was charged to Ac. 265, Contributions. A rate of 2.6% is found to be a reasonable straight-line remaining life gross depreciable plant rate for this utility and, by the order which follows, will be required to be applied until further review indicates a change is appropriate.

O R D E R

The Commission having considered the request of applicant and being of the opinion that a public hearing is not necessary, therefore,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that present rates and charges, insofar as they differ from those herein prescribed, for the future are unjust and unreasonable; therefore,

IT IS ORDERED THAT:

1. Arrowhead Manor Water Company, a California corporation 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 attached to this order as Appendix A and, upon not less than five days notice to this Commission and to the

public, to make said rates effective for service rendered on or after February 1, 1960.

2. Within sixty 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, a revised tariff service area map or maps acceptable to the Commission, which clearly indicate the boundaries of applicant's service area. Such tariff service area map or maps shall become effective upon five days notice to the Commission and to the public after filing as hereinabove provided.

3. Applicant shall, on or before July 1, 1960, file with this Commission 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.

4. Applicant shall continue to determine depreciation expense by multiplying the depreciable utility plant by a rate of 2.6%. This rate shall be used until review indicates that 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. Applicant shall, on or before July 1, 1960, complete the installation and place in operation the following plant improvements and additions:

- a. Horizontal well and tie-in main to the Arrowhead Manor system.
- b. Four-inch main to bring additional water from the tanks above Lake Drive, across the county road, connecting to existing main on Lyon Drive in the Lake Brook Park system.
- c. Four-inch main to replace corroded pipe in the county road in the Arrowhead Manor system.
- d. New main from the pump line to the central portion of the Lake Brook Park system, to correct the low pressure conditions in that area.

6. On February 1, 1960, and every three months thereafter until the required work is completed, applicant shall report in writing to the Commission upon the status of the improvements ordered in Paragraph 5, above. The final report shall include a map or sketch showing the size, type and location of the above-ordered improvements and additions as actually installed.

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

Dated at San Francisco, California, this 15th day of December, 1959.

[Signature]
President

[Signature]

[Signature]

[Signature]

Theodore Jenner
Commissioners

Schedule No. 1

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Certain unincorporated subdivisions approximately one mile southeast of Lake Arrowhead, near the community of Cedar Glen, San Bernardino County.

RATES

Annual Quantity Rates:	<u>Per Meter Per Year</u>
First 4,500 cu.ft. or less	\$ 39.00
Next 1,500 cu.ft.,per 100 cu.ft.45
Over 6,000 cu.ft.,per 100 cu.ft.30

Annual Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 39.00
For 3/4-inch meter	45.00
For 1-inch meter	60.00
For 1 1/2-inch meter	80.00
For 2-inch meter	120.00

The Annual Minimum Charge will entitle the customer to the annual 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. Meters will be read quarterly and bills will be rendered for charges based upon water used in excess of the quantity allowed for the annual minimum charge.
3. Service will not be furnished or continued under this schedule when the annual charges at meter rates are estimated or found by utility to be less than under flat rates.

APPENDIX A
Page 2 of 6

Schedule No. 1S

SEASONAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Certain unincorporated subdivisions approximately one mile southeast of Lake Arrowhead, near the community of Cedar Glen, San Bernardino County.

RATES

Per Meter
Per Season

Seasonal Quantity Rates:

First 2,500 cu.ft. or less, included in Seasonal Minimum Charge.	
Next 1,000 cu.ft., per 100 cu.ft.	\$.45
Over 3,500 cu.ft., per 100 cu.ft.30

	: Per Meter Per Season	:Quantity	:
	:Summer Season:Winter Season	:Allowed Per	:
	:May 1 through:Nov. 1 through	:Season for	:
	: October 31 : April 30	:Seasonal Mini-	:
	:	:mum Charge	:

Seasonal Minimum Charges:

For 5/8 x 3/4-inch meter ... \$ 23.00	\$ 19.00	2,500 cu.ft.
For 3/4-inch meter ... 27.00	23.00	3,200 cu.ft.
For 1-inch meter ... 37.00	33.00	5,900 cu.ft.
For 1 1/2-inch meter ... 47.00	43.00	9,700 cu.ft.
For 2-inch meter ... 67.00	63.00	17,100 cu.ft.

(continued)

Schedule No. 1S

SEASONAL GENERAL METERED SERVICE
(continued)

SPECIAL CONDITIONS

1. Service may be taken under this schedule for either the summer season, May 1 through October 31, or the winter season, November 1 through April 30, or both.

2. Meters will be read quarterly and bills will be rendered for charges based upon water used in excess of the quantity allowed for the seasonal minimum charge.

3. Service will not be furnished or continued under this schedule when the seasonal charges at meter rates are estimated or found by utility to be less than under flat rates.

4. The seasonal minimum charge is due in advance on or before the initial day of the season and entitles the customer to the quantity of water each season that corresponds to the seasonal minimum charge as shown above.

Schedule No. 2R

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Certain unincorporated subdivisions approximately one mile southeast of Lake Arrowhead, near the community of Cedar Glen, San Bernardino County.

RATES

Per Service Connection
Per Year

For one single family residence or residential unit	\$ 39.00
For each additional single family residence or residential unit on the same premises and served from the same service connection	20.00

SPECIAL CONDITIONS

1. The annual residential flat rate charge applies to service during the 12-month period commencing May 1 and is due in advance.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. Meters will be installed at option of utility or customer for above classifications, except that service will not be furnished or continued at meter rates at the request of customer when the charges at such rates are estimated or found by utility to be less than under flat rates. In the event a meter is installed at the request of customer, service thereunder will be rendered only on the basis of Schedule No. 1, Annual General Metered Service, or Schedule No. 1S, Seasonal General Metered Service, and must be continued at meter rates for not less than 12 months before it may again be changed to flat rate service, except as otherwise provided for in this special condition.

APPENDIX A
Page 5 of 6

Schedule No. 2RS

SEASONAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Certain unincorporated subdivisions approximately one mile southeast of Lake Arrowhead, near the community of Cedar Glen, San Bernardino County.

RATES

:	<u>Per Service Connection:</u>		:
:	<u>Per Season</u>		:
:	<u>Summer Season:</u>	<u>Winter Season</u>	:
:	<u>May 1 through:</u>	<u>Nov. 1 through</u>	:
:	<u>October 31</u>	<u>: April 30</u>	:

For one single family residence or residential unit	\$24.00	\$20.00
For each additional single family residence or residential unit served from the same service connection ...	11.00	9.00

(continued)

Schedule No. 2RS

SEASONAL RESIDENTIAL FLAT RATE SERVICE
(continued)

SPECIAL CONDITIONS

1. Service may be taken under this schedule for either the summer season, May 1 through October 31, or the winter season, November 1 through April 30, or both.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. Meters will be installed at option of utility or customer for above classification, except that service will not be furnished or continued at meter rates at the request of customer when the charges at such rates are estimated or found by utility to be less than under flat rates. In the event a meter is installed at the request of customer, service thereunder will be rendered only on the basis of Schedule No. 1, Annual General Metered Service, or Schedule No. 1S, Seasonal General Metered Service, and must be continued at meter rates for not less than 12 months before it may again be changed to flat rate service, except as otherwise provided for in this special condition.
4. The seasonal flat rate charge is due and payable in advance on or before the initial day of the season.