

ORIGINALDecision No. 59374

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 NEILS M. PETERSEN, JR., Executor of)
 the Estate of ELEANORA C. PETERSEN,)
 deceased, of the copartnership of)
 N. M. PETERSEN and ELEANORA C.)
 PETERSEN (both deceased), dba)
 MOUNTAIN AVENUE WATER COMPANY, for)
 authority, among other things, to)
 increase the rates for water serv-)
 ice furnished in the Boyes Hot)
 Springs region, Sonoma County,)
 under Section 454 of the Public)
 Utilities Code.)

Application No. 41289

O P I N I O N

In this application filed July 7, 1959, and amended by filings of August 6, 1959 and October 26, 1959, Neils M. Petersen, Jr., Executor of the Estate of Eleanora C. Petersen,¹ doing business as Mountain Avenue Water Company, requests authority to increase rates for water service in Boyes Hot Springs and vicinity, Sonoma County. The utility supplies water to approximately 216 customers, all of whom are on meter rate service. The rates requested are estimated to increase revenues by about 58 per cent.

The application states that Neils M. Petersen, Jr., as Executor of the Estate of Eleanora C. Petersen, deceased, and sole heir of Eleanora C. Petersen, is operator, during probate, of Mountain Avenue Water Company.

The application further states that, although applicant would prefer to withhold this application until the final settlement of the aforesaid estate, it is necessary at this time to procure

¹ Sometimes spelled Peterson in previous proceedings.

adequate operating revenues and to check and forestall the annual losses which are consuming the available capital of Mountain Avenue Water Company and forcing applicant to use his private funds to carry on the operation of the utility. Among other things, applicant requests the Commission to grant such relief by way of interim rate increases, pending full hearing, as the Commission may deem proper.

Ownership of System

It appears that the subject utility was acquired by N. M. Petersen in 1921 and rates for water service were authorized by Decision No. 10391, dated May 2, 1922, in Application No. 7630. Subsequently, in Decision No. 46174, dated September 4, 1951, in Application No. 32411, it was indicated that the system was then owned by N. M. Petersen and Eleanora C. Petersen, although no request was made to this Commission seeking authorization for such change of ownership. Eleanora C. Petersen apparently became the sole owner of the system upon the death of her husband, N. M. Petersen, and authorization for this change of ownership likewise was never sought from this Commission. This application has been filed by Neils M. Petersen, Jr., as Executor of the Estate of Eleanora C. Petersen, because N. M. Petersen and Eleanora C. Petersen are both deceased. In the application, Neils M. Petersen, Jr., states that he is the sole heir of Eleanora C. Petersen. The final settlement of the Estate of Eleanora C. Petersen is now pending in the Superior Court of the State of California in and for the County of Sonoma, Dept. 2 (Probate), being matter No. 25465 of said court.

History of System

The present water system is a combination of several predecessor systems, the oldest of which was installed about the year

1913. Authorization to acquire these several systems was granted by the Commission at various times from 1921 to 1944 and all have now been combined into one interconnected system.

The area served was formerly a resort area, with a relatively large number of seasonal users. Since World War II, however, the character of the area has changed and most of the residences are now occupied during the entire year.

Description of System

The principal source of supply of water for the system is located on Lot 7, Block "B", of Sonoma Highlands and consists of a 10-inch cased well, 200 feet deep, equipped with a 5-horsepower turbine pump. Water from this well is pumped into the distribution mains and also into a 50,000-gallon redwood storage tank, known as the Highland Tank, located on a hill about 75 feet above the well pump.

A second source of supply consists of a 10-inch cased well, 220 feet deep, located on Lot 1, third subdivision, of Agua Caliente Park. This well is equipped with a 10-horsepower turbine pump and supplies primarily only those customers located on and north of Mountain Avenue. Water from this well is pumped into a 31,000-gallon steel tank, known as the Mountain Tank, on a hill above the well pump, from which it flows by gravity through the distribution mains on Mountain Avenue and northerly thereof.

Both of the well pumps are automatically operated by float valves and magnetic switches. The two storage tanks are at different elevations; consequently, the two distribution systems are normally operated separately, but can be connected by opening a 1½-inch valve on Highland Boulevard at Mountain Avenue.

The distribution system consists of approximately 17,000 feet of pipe, ranging in size from 3/4 to 4 inches in diameter.

Rates, Present and Proposed

The following tabulation is a summary of applicant's present rates for metered service, which became effective October 1, 1951, by authorization in Decision No. 46174, dated September 4, 1951, in Application No. 32411 amended.

GENERAL METERED SERVICE

Service Charge:		<u>Per Meter Per Month</u>
For 5/8 x 3/4-inch meter	.....	\$1.25
For 3/4-inch meter	.....	1.50
For 1-inch meter	.....	2.00
For 1½-inch meter	.....	2.50
For 2-inch meter	.....	3.00

Quantity Charge (to be added to Service Charge):

First	500 cubic feet, per 100 cubic feet	\$0.28
Next	1,000 cubic feet, per 100 cubic feet	.24
Next	1,000 cubic feet, per 100 cubic feet	.20
Over	2,500 cubic feet, per 100 cubic feet	.15

The present meter rate schedule includes the following special condition, which applicant now proposes to discontinue:

- "1. Seasonal users, who are not bona fide permanent customers, shall pay 12 times the monthly service charge in advance."

Applicant proposes to establish a minimum charge type of rate, in which an annual minimum charge would be applicable to all customers and which would allow up to 200 cubic feet of water consumption per month for the annual minimum charge for a 5/8 by 3/4-inch meter, with correspondingly greater quantities of water included for larger sizes of meters. The rates proposed are as follows:

GENERAL METERED SERVICE

Monthly Quantity Rates:

	Per Meter Per Month
First 200 cubic feet or less	\$ 3.50
Next 300 cubic feet, per 100 cubic feet	.30
Next 1,000 cubic feet, per 100 cubic feet	.25
Over 1,500 cubic feet, per 100 cubic feet	.20

Annual Minimum Charge:

	Per Meter Per Year
For 5/8 x 3/4-inch meter	\$ 42.00
For 3/4-inch meter	48.00
For 1-inch meter	60.00
For 1½-inch meter	84.00
For 2-inch meter	120.00

The Annual Minimum Charge will entitle the customer to the monthly quantity of water which one twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

Under the proposed schedule of rates, the annual minimum charge would be payable in advance, except that customers who have established their permanency by taking service for each of 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. Charges for water used in excess of the quantity allowed each month for the annual minimum charge would be billed monthly, bimonthly or quarterly, at the option of the utility, on a noncumulative monthly consumption basis.

Applicant proposes no change in rates for fire hydrant service, which are presently \$5 per year for a 1½-inch fire hydrant and \$6 per year for a 2½-inch fire hydrant.

Customer Response

Following field investigations of applicant's operations and accounting records by members of the Commission's engineering and accounting staff, a letter was sent to each of applicant's customers on October 30, 1959. This letter provided the customers with information concerning the present rates and the requested rates, together with a comparison of earnings at present rates and at the requested

rates for the estimated year 1959, and asked for any comments the customers might wish to make.

Of the 210 letters sent to the customers, five answers were received. All of these responding letters complained of the large increase in the proposed charges for water, but acknowledged that an increase was in order. Two answers further expressed the opinion that charges should only apply to the seasonal period when water was actually used. Additionally, there was one complaint of poor service in the vicinity of Central Avenue. It is to be noted that applicant's proposed improvement program contains, among other things, the replacement of the main in this location with a main of larger diameter.

Service Improvements

During the course of its investigations, the staff discussed the matter of service improvements with applicant. As set forth in the first amendment to the application, the utility plans to install approximately 825 feet of 2-inch pipe from the 50,000-gallon Highland Tank to Las Lomas Road, thence southerly to Monterey Road and easterly along Monterey Road. This line will improve service to three existing customers who now receive inadequate pressure and, through an interconnection with an existing main on Las Lomas Road, will increase the flow in the immediate area containing about 24 customers. Applicant estimates that this installation, including rerouting of three service connections and the necessary surveys to determine the location of the right of way, will cost approximately \$5,667.

The staff has reviewed the utility's proposed improvement program and believes it to be reasonable. The relatively high cost of the work is due chiefly to the rugged and rocky terrain where most of the new line will be installed and to the fact that the feasible routes have never been properly surveyed. The staff made a special field investigation of this particular area in order to verify the situation as described by applicant.

The staff is of the opinion that applicant should, as soon as practicable, connect several existing dead-end mains in the system to improve pressure and flow conditions. The five locations where such work should be done are as follows: (1) Bolson Avenue to State Highway 12; (2) Central Avenue to State Highway 12; (3) Bonita Way to Central Avenue; (4) Waterman Avenue to Highland Boulevard; (5) Central Avenue, from north of Highland Boulevard to south of Las Lomas Road. Applicant advises that he plans to replace most or all of the line on Waterman Avenue within the near future as it is deteriorating and needs to be replaced by a larger line in order to improve service in the central portion of the system, between Feters Avenue and Waterman Avenue. For this reason, he is reluctant at this time to connect the dead-end main on Waterman Avenue with the main on Highland Avenue. The staff points out that this interconnection can be made at relatively low cost, that it will help to improve pressures in the central portion of the system, and that it fits in with applicant's future plan to replace the Waterman Avenue main. Consequently, the staff recommends that this interconnection, as well as the planned line from the Highland Tank to Las Lomas Road and Monterey Avenue, should be installed prior to the summer of 1960. The remaining interconnections should be made as soon as practicable thereafter, in connection with applicant's program for upgrading service for the entire system.

In its summary of the results of operation for the estimated year 1959, the staff has included an amount of \$5,800 in rate base which it believes will be adequate to cover the cost of the new line from the Highland Tank to Las Lomas and Monterey Road, as planned by applicant, and also the cost of interconnecting the existing main on Waterman Avenue to the main on Highland Boulevard. In the staff's opinion, it is proper to include this amount in rate base for the estimated year 1959 since the improvements are not

related to customer growth and are expected to be completed prior to the 1960 summer season.

Summary of Showings

The first amendment to the application shows a rate of return for the year 1959 estimated at 7.81 per cent on a rate base of \$35,517. This estimate, however, was based on the rates requested in the original application and not on the rates requested in the second amendment to the application. Applicant did not compute a rate of return on the basis of the proposed rates for water service as set forth in the second amendment.

The Commission staff developed rates of return for the year 1959 estimated, at both present rates and the rates as proposed by applicant in the second amendment to the application. The staff's results reflect the full-year-effect of the inclusion in rate base and expenses of certain recommended improvements hereinbefore discussed and were based on a physical examination of the water system properties, a study of applicant's operations, a review of the data furnished in the application and amendments thereto, a review of information in the Commission's files, and several discussions with applicant and certain of his customers. Applicant has agreed that the staff's computations reasonably reflect the results of operation for this utility for the estimated year 1959, as set forth in the following tabulation:

Item	Year 1959 Estimated	
	Applicant's	
	Present Rates	Proposed Rates
Operating Revenues	\$ 8,335	\$13,200
Operating & Maintenance Expenses ...	7,420	7,420
Taxes, other than Income	900	900
Depreciation	1,235	1,235
Income Taxes	-	800
Total Expenses	9,555	10,355
Net Revenue	(1,220)	2,845
Average Depreciated Rate Base	36,270	36,270
Rate of Return	Loss	7.8%

(Red Figure)

Findings and Conclusions

The results of operation in the foregoing tabulation clearly show that the present rates are deficient and that the rates proposed by applicant are not beyond the zone of reasonableness. The Commission finds and concludes that the staff's estimates of revenues, expenses and rate base as hereinbefore developed reasonably reflect the results of applicant's operations for the estimated year 1959.

The Commission has frequently said in rate proceedings that rate bases, rates of return and other pertinent data are valuable indices of earning requirements. The Commission has also said that it considers all available data of record without limitation to any single method or formula. The principal issue involved is that the final result be reasonable. Under these conditions a net revenue of approximately \$2,845 for the test year 1959 is found to be justified in this instance, representing a rate of return of 7.8 per cent on a depreciated rate base of \$36,270, which rate base and rate of return are hereby adopted as reasonable for the purpose of this decision. If the utility continues its presently planned program of plant improvements, most of which are not related to customer growth, during the next few years, its rate base will increase somewhat each year, with a corresponding gradual reduction in rate of return.

To the extent that the estimated costs of certain plant improvements have been included in the rate base hereinabove adopted, the order will require applicant to make such installations within a reasonable period of time. While the order herein will not specifically provide for further improvements in addition to those required by this decision, applicant will be expected to diligently pursue his improvement program as outlined in discussions with the Commission staff.

Applicant alleges that the service characteristics of the Boyes Hot Springs area have changed from a predominantly summer home area to a service area wherein there are few residences that are not occupied throughout the entire year. The proposed rate schedule has been designed to meet this change.

Some of applicant's seasonal customers object to paying for service during the months or weeks when they are not occupying their homes. It should be obvious, however, that a water system must be constructed and maintained in such a manner that the maximum demands of all customers may be met, even if this involves only relatively few days during the year. It cannot be expanded during period of peak demand and contracted when demands are low, nor can year-round maintenance and repairs be neglected if the system is to continue to serve its customers. The total reasonable expenses to operate and maintain the system must be regained through the total revenues collected. Many expenses, such as maintenance, taxes and depreciation, continue whether the customers are there or not.

In view of applicant's request for prompt rate relief to avoid further operating losses, the authority herein granted will become effective ten days after the date hereof. This will enable the annual rates herein authorized to become effective at the beginning of the year.

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 the present rates, insofar as they differ from those herein prescribed, for the future are unjust and unreasonable; therefore,

IT IS ORDERED that:

1. Applicant 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 all service rendered on and after January 1, 1960.
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 and acceptable to the Commission, rules governing customer relations revised to reflect present-day operating practices, a revised tariff service area map and current sample copies of printed forms normally used in connection with customers' services. Such rules, tariff service area map and sample 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 300 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 2.8 per cent. 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. On or before June 1, 1960, applicant shall have installed and placed in operation the following improvements to the water system and, within fifteen days after the installation and placing in operation of each category of said improvements, shall so notify the Commission in writing thereof:
 - a. Install approximately 825 feet of new pipeline of not less than 2 inches in nominal diameter from the Highland Tank to Las Lomas Road, thence along Las Lomas Road to Monterey Road and easterly

along Monterey Road for approximately 300 feet, including a connection to an existing main at the intersection of Las Lomas Road and Monterey Road and including the rerouting of three service connections on Monterey Road, all essentially as set forth in the "Outline of Project #1" on page 4 of the first amendment to the application.

- b. Install a pipeline of not less than 2 inches in diameter in an easterly direction along Waterman Avenue to interconnect the present dead-end main on Waterman Avenue with the existing main on Highland Boulevard.

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

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

Ernest R. Bay
President
John L. Smith
Walter H. Smith
E. L. Fox
Theodore J. J. J. J.
Commissioners

APPENDIX A
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Schedule No. 1

ANNUAL GENERAL METERED SERVICEAPPLICABILITY

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

TERRITORY

The unincorporated area including a portion of the community of Boyes Springs, and vicinity, Sonoma County. .

RATES

Monthly Quantity Rates:		Per Meter Per Month
First	200 cu.ft. or less	\$ 3.50
Next	300 cu.ft., per 100 cu.ft. ....	.30
Next	1,000 cu.ft., per 100 cu.ft. ....	.25
Over	1,500 cu.ft., per 100 cu.ft. ....	.20

Annual Minimum Charge:		Per Meter Per Year
For	5/8 x 3/4-inch meter	\$ 42.00
For	3/4-inch meter	48.00
For	1-inch meter	60.00
For	1 1/2-inch meter	84.00
For	2-inch meter	120.00

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.

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1 and is due in advance.

(Continued)

APPENDIX A
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Schedule No. 1

ANNUAL GENERAL METERED SERVICE
(Continued)

2. A customer who has established his permanency by having paid for service at the same location for each of 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.

3. The charge for water used in excess of the quantity allowed each month for the annual minimum charge will be billed monthly, bi-monthly, or quarterly, at the option of the utility, on a noncumulative monthly consumption basis.