

ORIGINAL

Decision No. 62046

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

M. V. KROLOP doing business as
RIVER PINES WATER SERVICE,
River Pines, Amador County,
State of California for auth-
ority to establish a general
increase in water rates.

Application No. 42362
(Amended)

Pierce Deasy, for applicant.
George E. Paras, for River Pines Home Owners'
Association, protestant.
Alfred V. Day and Thomas L. Deal, for the
Commission staff.

O P I N I O N

M. V. Krolop, since June of 1959 (Decision No. 58390, Application No. 40972) the owner and operator of a public utility water system serving - as of August 31, 1960 - 47 metered and 129 flat rate permanent or seasonal consumers in the unincorporated foothill community of River Pines, on the South Fork of the Cosumnes River in Amador County, requests authority to increase water service rates as indicated in the following condensed tables (from staff study, Exhibit 11, pp 12, 15):

Metered Service - Minimum Charges

<u>Monthly Quantity Rates</u>	<u>Per Meter Per Month</u>			
	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Permanent</u>	<u>Nonperm.</u>	<u>Permanent</u>	<u>Nonperm.</u>
First 250 gallons or less				\$ 6.00
First 1,000 gallons or less			\$ 6.00	
First 2,500 gallons or less		\$ 2.50		
First 3,000 gallons or less	\$2.75			
	<u>For 5/8 x 3/4-inch Meter</u>			
Annual Minimum Charge	-	\$30.00 ^a	\$72.00 ^b	\$72.00 ^c
Monthly Minimum Charge	\$2.75	-	-	-

a Payable in advance

b Payable monthly

c Payable semiannually, in advance

Flat Rate Service

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percent</u>
	<u>Per Connection Per Month</u>			
Permanent Customers	\$ 2.75	\$ 6.00 ^b	\$ 3.25	118.2%
	<u>Per Connection Per Year</u>			
Nonpermanent Customers	\$30.00 ^a	\$72.00 ^c	\$42.00	140.0%

a Payable in advance

b Payable monthly

c Payable semiannually, in advance

The effect of the proposed increases on typical water bills is indicated below (from Exhibit 11, p 15):

Comparison of Typical Monthly Bills

<u>Classification</u>	<u>Average Monthly Water Consumption</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Difference</u>	
				<u>Amount</u>	<u>Percent</u>
	<u>Metered Service</u>				
Permanent	2,800 gals.	\$2.75	\$8.50	\$5.75	209.0%
Nonpermanent	1,500 gals.	2.50	7.75	5.25	210.0%
	<u>Flat Rate Service</u>				
Permanent	-	\$2.75	\$6.00	\$3.25	118.2%
Nonpermanent	-	2.50	6.00	3.50	140.0%

The application, as originally filed on June 15, 1960, requested interim authority to establish the rates then proposed and was amended on July 20, 1960 to include certain data required for Commission action on the request. On July 18, however, the surface flow of the South Fork of the Cosumnes River ceased, causing depletion of the well water supply, which became acute early in August, since the system lacks adequate storage capacity to hold sufficient water during the normally dry season extending from about July to September.^{1/} Consequently, and in view of the complaints of some of the consumers, both seasonal and permanent related to water shortages and other service problems, interim authority on the rate request was withheld and the application was set down for an early hearing, chiefly to accommodate seasonal consumers who would normally leave the area early in September.

At the hearing, held at River Pines on August 31, 1960, before Examiner John M. Gregory, the consumers presented evidence of shortages and poor quality of water during certain periods in August, together with some complaints concerning disputed bills, which have since been settled. The utility, also at this hearing, orally amended the rate proposals of its original application to the extent generally indicated in the tables above, and later filed exhibits, including a revised summary of earnings (Exhibits 1, 2 and 3), which reflect the amended proposals advanced at the hearing.^{2/}

^{1/} This appears to be a common experience for some of the smaller water utilities on the lower Cosumnes system that have inadequate storage. There is some indication in the record, however, that State or local projects are being planned to alleviate the storage problems in that area.

^{2/} The staff study (Exhibit 11), which includes a financial analysis, an appraisal and a depreciation study, was not completed at the time of the August 31 hearing due to the comparatively short time elapsing since the filing of the application. The study, originally based on the rate proposals filed in June 1960, was revised in its final form to take account of applicant's amendments.

A second hearing was held at River Pines on December 21, 1960, when the application was submitted for decision. By letters dated December 27, 1960, Mr. and Mrs. Krolop requested the Commission's consideration of further revisions in rates and plans for metering the system, and also raised certain questions concerning the item of transportation expense in the staff study. The revised rate schedules were available at the hearing but were not offered in evidence. The procedural problem raised by the receipt of these letters was called to the attention of both applicant and his counsel, by letters dated January 3, 1961. On January 9, 1961, the Commission was advised by applicant's attorney to disregard the communications from his clients, since they did not desire to set aside submission of the application and reopen the proceeding for receipt of further evidence. The application, accordingly, will be determined on the basis of the record as submitted on December 21, 1960.

The main problem that emerges from this record concerns the midsummer water shortages on this system, which occur during the period of maximum demand and which, because of the predominately flat rate basis of usage linked with inadequate storage capacity, rapidly reach critical points during the dry season. There appears to be no special problem of water supply or distribution, however, during other portions of the year when the system's operations are limited to serving its permanent consumers and occasional weekenders.

The system is located in a hilly section of Amador County, with many granite outcroppings in the vicinity. Deep-well drilling is both expensive and speculative, due to the uncertain composition of the subsurface strata; moreover, water in granite channels is sometimes subject to the possibility of contamination from distant surface sources.

Field investigation by the staff on August 30, 1960, showed water in all three of the utility's shallow dug pumped wells to be considerably below acceptable levels. A horizontal gallery then under construction and completed in September or October for Well No. 1, which is fed from the South Fork, was expected to increase the well supply if water were available in the river. Well No. 3, located near Slate Creek, has been interconnected with the rest of the system. System storage at the time of investigation consisted of one concrete and two metallic tanks, with a total capacity of 26,000 gallons. The water is distributed through about 19,350 feet of mains ranging from 3/4 inch to 2½ inches in diameter, with some overloaded runs of smaller pipe and evidence of leakage in the area of use.

With respect to additional storage, one of the staff recommendations, for which an allowance of \$3,000 has been made in the estimated plant for 1960, is that a dam be constructed across Slate Creek, which will require purchase or lease of the dam site as well as investigation and acquisition, if necessary, of whatever water rights may be involved. The added storage capacity, together with better supply through the recently constructed infiltration gallery for Well No. 1, should help to alleviate seasonal shortages.

Construction of a dam across Slate Creek, or other provision for equivalent storage capacity, is found to be necessary for more adequate service by the utility. Also, when the supply problem has been resolved, the utility should arrange with local health authorities for a survey of Well No. 1, to consider the advisability of chlorinating the water from that source. Water from the other two wells is now treated. Other recommendations by the staff will be considered following discussion of the financial aspects of the case, including applicant's rate proposals, to which we now turn.

This system, which commenced operations as the Foss Water System about 1934 in Pine Lodge Park, at River Pines, was declared to be a public utility in 1950 (Decision No. 45010, Case No. 5191). Foss sold it to the Steinseiks in 1952 (Decision No. 47496, Application No. 33413), who in turn sold it to the Krolops' predecessors, the Johannesens, in 1958 (Decision No. 56937, Application No. 40108). For accounting purposes, the acquisition of the system by the Krolops is considered to have taken place as of July 1, 1959.^{3/}

The following condensed table based on available recorded data and estimates by the staff summarizes the total utility plant, depreciation reserve and net utility plant from December 31, 1951, when those items were originally established by a staff appraisal (Application No. 32041), to the fiscal year ending June 30, 1960 (from Exhibit 11, Table 2-A):

Item	Staff Appraisal : 12/31/51	Additions : 1/1/52 to : 6/30/59	Balance : 6/30/59	Additions : 7/1/59 to : 12/31/59	Balance : 12/31/59	Additions : 1/1/60 to : 6/30/60	Balance : 6/30/60
Total Utility Plant	\$9,075.00	\$12,141.73	\$21,216.73	\$2,084.21	\$23,300.94	\$2,509.12	\$25,810.06
Depreciation Reserve	1,771.00	1,997.00	3,768.00	363.00	4,131.00	450.00	4,581.00
Net Utility Plant	7,304.00	10,144.73	17,448.73	1,721.21	19,169.94	2,059.12	21,229.06

With respect to the utility's income statement for the fiscal year ended June 30, 1960, as shown by the amended application

^{3/} Inadequate accounting records over the years have made it somewhat difficult to analyze the utility's financial affairs; however, the expressed willingness of the owners to put in effect certain staff suggestions for better accounting procedures should simplify future regulation in this field.

and as determined by staff examination, the record reveals the following condensed comparison (Exhibit 11, p 9, as revised orally at the hearing):

<u>Item</u>	<u>Per Amended Application</u>	<u>Per Staff</u>	<u>Difference</u>
Operating Revenues	\$5,531.09	\$5,773.09	\$ (242.00)
<u>Operating Revenue Deductions</u>			
Operating Expenses	5,672.49	2,653.39	3,019.10 ^a
Owner's Labor	-	1,681.25 ^b	(1,681.25)
Depreciation	1,084.45	813.00	271.45
Taxes	110.22	108.60	1.62
Total Oper. Rev. Deductions	<u>6,867.16</u>	<u>5,256.24</u>	<u>1,610.92</u>
Net Income (Loss)	\$ (1,336.07)	\$ 516.85	\$ (1,852.92)
(Red Figure)			

^a The excess of \$3,019.10 between operating expenses as shown in the amended application and as determined by the staff resulted, in part, from applicant having included in operating expenses certain expenditures properly chargeable to plant accounts.

^b Included by staff for owner's labor for system operation and maintenance.

With regard to rates and operating revenues, the record shows that applicant's present rates were established in 1952 (Decision No. 47496, Application No. 33413) and that revenues are derived from metered and flat rate service rendered to an average of 79 permanent and 97 seasonal consumers in 1959 and 1960.

Applicant has proposed to place the system on a 100 percent metered basis during 1961. The staff, however, has recommended that priority be given to securing an adequate supply of water and that metering be staged at the rate of about 12 per year. The customer counts used by the staff to develop adjusted revenues for 1959 and estimated revenues for 1960 give effect to the more modest metering schedule. Further adjustments in developing operating revenues relate to climatic conditions, unrecorded revenues,

allowances due to erroneous meter readings caused by air in the mains, corrections for improperly applied tariffs, normalization for water shortages in July, August and September, and uncollectibles.

The following condensed table (Exhibit 11, p 17) shows adjusted and estimated revenues for the indicated years:

Item	1959 Adjusted			1960 Estimated	
	Present Rates	Proposed Rates	Percent Increase	Present Rates	Proposed Rates
Permanent Customers (Metered and Flat Rates)	\$2,950	\$ 6,940	135.3%	\$2,975	\$ 7,025
Nonpermanent Customers (Metered and Flat Rates)	3,065	7,505	144.9%	3,155	7,810
Total	\$6,015	\$14,445	140.1%	\$6,130	\$14,835

Operating expenses, as adjusted for 1959 and as estimated for 1960, reflect operating conditions noted above in connection with revenues, as well as what the staff has considered to be normal expenditures, salaries, power bills, transportation expense and insurance for this system. Total operating expenses for 1959, as so adjusted, are indicated as \$4,420 and for 1960, as so estimated, amount to \$4,500 (Exhibit 11, p 18). Income taxes have been developed on the basis of a sole proprietorship, with depreciation expense for income tax purposes calculated by the normal, straight-line remaining life method.

The depreciation requirement, computed by the various owners by the straight-line method but with different and arbitrarily selected accrual rates, has been developed from a staff study (Exhibit 11, Tables 5-A, 5-B) to show a composite accrual rate of 3.6 percent on depreciable plant, as of January 1, 1960, amounting to \$20,388, with the reserve for depreciation at that time totaling \$4,131.^{4/} The composite rate indicates that the system has an average

^{4/} For reference purposes, the staff determined that as of June 30, 1960 the depreciation reserve would be \$4,581 and the utility plant \$25,810.

remaining useful life of about 27 years, considered by the staff to be a realistic estimate for this utility.

Average depreciated rate bases developed by the staff for the years 1959, adjusted, and 1960, estimated, including a judgment amount for working cash, are shown below (Exhibit 11, p 25):

Item	1959 Adjusted	1960 Estimated
Weighted Utility Plant	\$30,810	\$31,170
Materials and Supplies	100	100
Working Cash	300	300
Subtotal	\$31,210	\$31,570
Average Depreciation Reserve	3,635	4,635
Average Depreciated Rate Base	\$27,575	\$26,935
USE	27,580	26,940

The revenues, expenses, taxes, depreciation and rate bases developed in other portions of the staff study are summarized in the following table for the years 1959, adjusted, and 1960, estimated, at present rates and at the rates proposed by applicant (Exhibit 11, p 26):

Summary of Earnings

Item	1959 Adjusted		1960 Estimated	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$ 6,015	\$14,445	\$ 6,130	\$14,835
<u>Deductions</u>				
Operating Expenses	4,420	4,420	4,500	4,500
Taxes Other Than Income	250	250	250	250
Depreciation Expense	995	995	1,010	1,010
Income Taxes	75	2,360	80	2,465
Total Deductions	\$ 5,740	\$ 8,025	\$ 5,840	\$ 8,225
Net Revenue	275	6,420	290	6,610
Average Depr. Rate Base	27,580	27,580	26,940	26,940
Rates of Return	1.0%	23.3%	1.1%	24.5%

It should be noted that under certain operating conditions, previously indicated, the above results would be modified to some

extent. If, for example, the present flat rate services are converted to metered service at the rate of 12 meters per year, the rate of return would continue its upward trend until the system is 100 percent metered, when it would tend to level off. If, however, the system is entirely metered during the present year, as proposed by applicant, the rate of return under present rates would be about 0.6 percent and under the proposed rates about 29.4 percent. Further, if the dam across Slate Creek is not constructed and if no corrections were made for the effect of shortages of water on water sales, the rates of return for 1959 under present and proposed rates would, respectively, approximate 0.7 percent and 24.6 percent, and for 1960 would be of the respective order of 0.6 percent and 25.6 percent.

The earnings results submitted by applicant (Exhibit 3) for the fiscal year 1960-61, based on his amended rate proposals, vary substantially from those developed by the staff, but were taken into account by the staff in developing its adjusted and estimated results, respectively, for 1959 and 1960. Applicant's results have not been incorporated in the summary of earnings tabulation above, due chiefly to the disparity in dates and in the classification of various items. They are shown in the condensed table below.

Applicant's Revised Summary of Earnings
(Exhibit 3)

Item	Fiscal Year 1960-1961 :		
	7/1/59 to : 6/30/60	Adjusted Present Rates	Estimated Proposed Rates
Operating Revenue	\$ 5,531.09	\$ 5,531.09	\$11,527.18
Operating Expenses (except taxes and depreciation)	5,672.49	8,552.49	8,143.02
Taxes Other Than Income	110.22	110.22	110.22
Self-Employment Tax	-	86.40	86.40
Depreciation Expense	1,084.45	1,084.45	1,000.00
Total Operating Expense	\$ 6,867.16	\$ 9,833.56	\$ 9,339.62
Net Revenue	(1,336.07)	(4,302.47)	2,187.56
Average Depr. Rate Base	24,766.43	24,766.43	28,750.00
Rates of Return	-	-	7.6%

(Loss)

Summary, Findings and Conclusions

Aside from pointing to service difficulties arising from water shortages under peak demand conditions and to regulatory problems stemming from inadequate records and accounting procedures, the record also reveals that the owner of this utility, since he acquired the system in 1959 (for the sum of approximately \$10,000), has encountered financial problems that have impeded his efforts to make necessary repairs and additions. Attempts to arrange for bank or other financing have been unsuccessful due to the poor showing under present rates. Also, funds in the amount of approximately \$94,000, which applicant has been expecting to receive as the result of termination of a former business enterprise and to utilize, in part, to improve the system, were still unavailable at the time this matter was submitted, because of litigation then in progress.

While such major items as applicant's one-year metering program might well be financed from such funds, to expect to do so without them and solely through increases in consumers' rates would appear to be both unrealistic and unduly burdensome on the consumers, although it is granted that metering would undoubtedly conserve - and aid in a fair distribution of - available water during the critical summer season.

The evidence developed on this record justifies the following specific findings of fact:

1. The present rates for water service charged by M. V. Krolop are insufficient to provide revenues to meet legitimate costs of operation of the River Pines Water System.
2. The rates proposed by applicant in his amended application are unreasonably high in relation to the adjusted and estimated revenues and expenses, including taxes and depreciation, as developed by the Commission staff in this proceeding.

We find and conclude that the estimates of operating revenues, expenses, including taxes and depreciation, and the rate bases as submitted by the staff for the years 1959 and 1960 reasonably represent the results of applicant's operations and they will be, and hereby are, adopted for the purposes of this proceeding.

3. The climatic and other conditions related to provision and distribution of an adequate supply of water for this system require that additional storage capacity be provided and that the system be fully metered under a program that will provide not to exceed 12 new metered services per year under present growth conditions.

4. The service and operating recommendations of the financial and engineering staff representatives, as set forth in Chapters 2 and 6 of their study, Exhibit 11 herein, are reasonable.

5. Based on the evidence of record and on the foregoing specific findings of fact, we further find that the increases in rates and charges authorized herein are justified, that the rates and charges authorized herein are reasonable, and that the present rates and charges insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

6. The rates and charges authorized herein are estimated to result in a rate of return of approximately 7.5 percent on a depreciated rate base of \$26,940, as indicated in the table following:

Summary of Earnings
(Estimated at Rates and Charges Authorized Herein)

<u>Item</u>	<u>1960 Estimated</u>
Operating Revenues	\$ 8,320
<u>Deductions</u>	
Operating Expenses	4,500
Taxes Other Than Income	250
Depreciation Expense	1,010
Income Taxes	540
Total Deductions	<u>\$ 6,300</u>
Net Revenue	2,020
Average Depreciated Rate Base	26,940
Rate of Return	7.5%

We find said rate of return and rate base to be reasonable for the purposes of this proceeding.

O R D E R

Public hearing having been held herein, the matter having been submitted, the Commission being fully advised and basing its order on the findings and conclusions contained in the foregoing opinion,

IT IS HEREBY ORDERED that:

1. Applicant M. V. Krolop is authorized to file in quadruplicate with this Commission, after the effective date of this order and in conformance with the provisions of General Order No. 96, the schedules of rates 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 service rendered on and after July 1, 1961.

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 in a form acceptable to the Commission, rules governing customer relations

revised to reflect present-day operating practices, a revised tariff service area map 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 50 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. Beginning with the year 1960, applicant shall determine depreciation expense by multiplying the depreciable utility plant by a rate of 3.6 percent. 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 not serve any new customers until a dependable source of water supply has been established for the River Pines Water System and the Commission, on appropriate advice from applicant, has modified the prohibition herein against such additional service.

6. On or before September 1, 1961, applicant shall install on Slate Creek a dam of sufficient size to impound at least 10 acre-feet of water, or otherwise provide for equivalent storage capacity. Within ten days after completion of the dam, or other equivalent

facility, applicant shall notify the Commission, in writing, that such installation has been completed and is operative.

7. Applicant, on or before July 1, 1961, and continuously thereafter, shall have posted in his office and open to public inspection, a table illustrating the conversion of meter readings for each 1,000 gallons, from 0 to 20,000 gallons, to billing quantities in cubic feet, together with the appropriate charges therefor. Within ten days of such posting, applicant shall file two copies of such table with this Commission.

8. Applicant, on or before July 1, 1961, shall institute a program for periodic analysis, by an approved laboratory, of the quality of water furnished to the customers, and shall report to the Commission, in writing, that such program has been instituted within ten days thereafter.

9. Applicant, not later than July 1, 1961, shall set up accounting records adequate to meet the requirements set forth in the Uniform System of Accounts for Class "D" Water Utilities, established by this Commission, along with a separate checking account from which utility expenditures shall be paid.

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

Dated at San Francisco, California, this 31st day of May, 1961.

[Signature]
President
[Signature]
George H. Hoover
Fredrick B. Holloff

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

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 community of River Pines, located approximately 10 miles northeast of the City of Plymouth, Amador County.

RATES

	<u>Per Meter Per Month</u>
Monthly Quantity Rates:	
First 400 cu.ft. or less	\$ 3.30
Next 600 cu.ft., per 100 cu.ft.....	.70
Next 2,000 cu.ft., per 100 cu.ft.....	.60
Over 3,000 cu.ft., per 100 cu.ft.50
Annual Minimum Charge:	
	<u>Per Meter Per Year</u>
For 5/8 x 3/4-inch meter	\$ 40.00
For 3/4-inch meter	58.00
For 1-inch meter	95.00
For 1 1/2-inch meter	175.00
For 2-inch meter	265.00

The Annual Minimum Charge will entitle the customer to a 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 in two equal installments on January 1 and July 1. A customer who has established his permanency by

(Continued)

APPENDIX A
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Schedule No. 1

ANNUAL GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS (Continued)

having paid for service during the preceding 12 months may elect to pay the 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 under the annual minimum charge may be billed monthly, bimonthly, or quarterly at the option of the utility on a noncumulative monthly consumption basis.

Schedule No. 2

ANNUAL GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of River Pines, located approximately 10 miles northeast of the City of Plymouth, Amador County.

RATE

Per Year

For each service connection \$46.80

SPECIAL CONDITIONS

1. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance in two equal installments on January 1 and July 1. A customer who has established his permanency by having paid for service during the preceding 12 months may elect to pay the flat rate charge on a monthly basis equal to one-twelfth of the annual flat rate charge.

2. Meters may be installed at option of utility or customer for above classification in which event service thereafter will be furnished on the basis of Schedule No. 1, Annual General Metered Service.