

**ORIGINAL**Decision No. 62389

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 CEDAR RIDGE WATER COMPANY, a corpo- )  
 ration, to operate a water system )  
 in Cedar Ridge Subdivisions Nos. 1, )  
 2 and 3 in Tuolumne County, and to )  
 establish rates. )

Application No. 43004  
 (Filed December 27, 1960)  
 (As Amended May 24, 1961)

Kennan H. Beard, for applicant.  
Clarence F. Barnes, for Cedar Ridge Improvement  
 Association, protestant.  
Gale Cook, for himself, protestant.  
Bernard B. Britt, for himself, interested party.  
Alfred V. Day, for the Commission staff.

O P I N I O N

This application was heard before Examiner E. Ronald Foster at Sonora on May 24, 1961, on which date the matter was submitted subject to the later filing by applicant of two exhibits, the latter of which was received on June 28, 1961. Copies of the application were sent and notices of hearing were given in accordance with the Commission's procedural rules. At the hearing, one water user protested in person and the president of the Cedar Ridge Improvement Association presented a written protest signed by 35 alleged residents of Cedar Ridge and customers of applicant.

Applicant's Requests

Cedar Ridge Company, a real estate sales organization, or its predecessor, the Kennan H. Beard Company, a limited partnership, commenced the construction of a water system and for approximately twelve years has been furnishing water to the purchasers of lots in Cedar Ridge Subdivisions Nos. 1, 2 and 3, in Tuolumne County. It now proposes to transfer the water system to applicant, Cedar Ridge Water Company, which was incorporated March 1, 1960.

Applicant requests the issuance of a certificate of public convenience and necessity to acquire, construct and operate a public utility water system to render service in the said subdivisions at proposed rates which are higher than those heretofore charged.

Applicant also asks for authority to issue 100 shares of its capital stock without par value for the acquisition of the existing water facilities from the parent company.

Proposed Service Area

The area sought to be certificated herein, as amended at the hearing, contains approximately 130 acres of unincorporated territory and is located in the south half of the south half of Section 36, Township 3 North, Range 15 East, M.D.B.&M. The said area lies at an elevation of nearly 4,000 feet and is approximately 15 miles northeast of Sonora and about 5½ miles northwest of the unincorporated community of Twain Harte, which is on State Highway 108.

Cedar Ridge Subdivisions Nos. 1, 2 and 3 contain some 170 lots and parcels of various sizes, as shown on the map attached to the application as Exhibit B, of which about 77 have been built upon. Cedar Ridge Subdivision No. 4 adjoins the others on the east, as shown on late-filed Exhibit No. 1, and contains 110 lots, of which only 38 will be developed initially, as shown on late-filed Exhibit No. 2.

Description of Water System

Applicant has two sources of water supply. The primary source consists of a grant secured from the State Water Rights Board for the first 0.09 cubic feet of water per second (about 40 gallons per minute) from a network of three enclosed springs located on forest land northeast of the subdivisions. Water from the springs is piped by gravity into two covered storage tanks having a combined

capacity of 25,500 gallons. A 4-inch pipeline approximately 2,500 feet long transmits the water from the storage tanks through Subdivision No. 4 to the distribution system in the other three subdivisions which can be supplied by gravity at adequate pressure.

To supplement the spring supply, water is purchased from the Pacific Gas and Electric Company and taken from its open ditch at sufficient elevation so that water from this source can be delivered into the storage tanks at the springs. An automatic pressure regulating valve controls the flow through the 6-inch pipeline, about 2,000 feet long, from the ditch to the distribution system. All water taken into the system from the ditch is chlorinated.

The distribution system now existing in Subdivisions Nos. 1, 2 and 3 consists of approximately 11,800 feet of 4-inch and about 650 feet of 2-inch galvanized steel mains. Some 111 service connections of  $\frac{1}{2}$ -inch copper tubing have been installed. Ten wharf type hydrants with 3-inch risers are located in various places in the tract. At the end of 1960 there were about 77 active service connections, none of which is metered.

Applicant plans to extend service to Subdivision No. 4 under the terms and conditions of the usual main extension agreement. Cedar Ridge Company allegedly intends to advance the cost of the distribution mains which will be connected to the existing transmission line from the springs. The initial development of 38 lots can be supplied without any additional facilities but a booster pump and an additional tank will be required to furnish water at adequate pressure to some of the remaining lots in this subdivision.

#### Cost of Facilities

The depreciated book value of the water system as of December 31, 1960, as shown in the application is \$14,900, which amount includes nothing for the cost of the two transmission lines.

Based on an examination of the available records of applicant's predecessors and including the estimated cost of the two pipelines, the ten hydrants and certain parcels of land, the Commission staff made various adjustments to the recorded balances and arrived at the following amounts to represent the estimated original cost of the utility plant and the related depreciation reserve as of December 31, 1960:

Gross Utility Plant	\$21,800
Depreciation Reserve	<u>5,385</u>
Net Utility Plant	\$16,415

Details of these amounts, by classification of accounts, are set forth in the staff report, Exhibit No. 3 herein. These amounts appear reasonable and will be adopted for the purposes of this proceeding.

Financing

To pay for the acquisition of the existing water utility plant, applicant proposes to issue 100 shares of its capital stock without par value, which is the total number of shares authorized by its articles of incorporation.

Present and Proposed Rates

Heretofore all service has been rendered on a flat rate basis to all customers, four of whom have been designated as permanent residents and charged at a higher annual rate than the rest of the customers who have been billed as week-end residents. Applicant now proposes to charge for service at a single, increased rate for all customers, since service will be available to them throughout the year. A schedule of rates for metered service is also proposed, although applicant intends to install meters only in the case of large consumers or to discourage unnecessary waste and careless use of water.

No charge has been made for water service to fire hydrants. Volunteer fire fighters utilize a fire truck equipped to pump water from the hydrants, the truck being owned and maintained by the local improvement association. Fire protection in the vicinity of Cedar Ridge is also afforded by the Forest Service. At the hearing, applicant requested that a nominal annual charge be authorized for fire hydrant service.

The following tabulation shows a comparison of the present and proposed flat rates and also the proposed meter and fire hydrant rates:

FLAT RATE SERVICE

<u>Item</u>	<u>Annual Rates</u>		<u>Increase</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Amount</u>	<u>Percent</u>
<u>1/2-Inch Service</u>				
Permanent Residents	\$24.00	\$36.00	\$12.00	50%
Week-end Residents	15.00	36.00	21.00	140

PROPOSED METER RATES

	<u>Per Meter</u>
	<u>Per Year</u>
Annual Minimum Charge:	
5/8 x 3/4-inch meter .....	\$36.00
3/4-inch meter .....	48.00
1-inch meter .....	60.00

	<u>Per Meter</u>
	<u>Per Month</u>
Monthly Quantity Rates:	
First 750 cu.ft. or less .....	\$ 3.00
Next 1,000 cu.ft., per 100 cu.ft. ....	.30
Next 2,000 cu.ft., per 100 cu.ft. ....	.25
Over 3,750 cu.ft., per 100 cu.ft. ....	.20

PROPOSED FIRE HYDRANT RATE

	<u>Per Year</u>
Per Hydrant	\$ 5.00

Applicant's Showing

Based on the operating experience of applicant's parent company, Exhibit G of the application shows an annual gross revenue requirement of \$3,250 in order to provide for a net profit of \$894, equivalent to six percent of a capital investment of \$14,900, in addition to estimated costs of operation amounting to \$2,356 per year. Such revenue requirement is somewhat in excess of that which could be obtained at \$36 per customer from the estimated number of 85 customers in the year 1962.

Exhibit F is a copy of the water supply permit issued December 8, 1958, by the State Board of Public Health to the Kennan H. Beard Company. Applicant's president stated that application has been made for an up-to-date water supply permit to be issued to Cedar Ridge Water Company and that it is now in process.

The application states that no franchise is necessary to be obtained from the County of Tuolumne for the installation of facilities in the streets of the subdivisions inasmuch as they have never been accepted by the county, although they are designated as public roads.

Customer Participation

The president of Cedar Ridge Improvement Association presented Exhibit No. 4, signed by some 35 residents of Cedar Ridge and customers of applicant, protesting "anything more than a nominal increase in rates, taking into account the standard of service and the quality of the product, which frequently have been the cause of complaint." This witness amplified the protest by reference to the frequent muddiness of the water, the occasional lack of water without advance notice and the strong chlorine content of water coming from the ditch supply.

Another customer protested the amount and percentage of the increase in water charges as proposed for week-end and summer residents. It was his belief that the requested increase in rates for water service was to provide funds for applicant with which to install the facilities in the expansion of the service area.

A third customer testified as an interested party to the frequent occurrence of foreign matter in the water, to numerous instances of lack of water and to continued conditions of low pressure at certain points in the distribution system, during the 7 or 8 years he had been a resident at Cedar Ridge.

In response to the customers' testimony, applicant's witness explained that the muddy appearance of the water was due to the presence of iron in the spring water which causes deposits to form on the pipe walls during periods of little use and which become dislodged when heavier use or reverse flow occurs. This condition can be largely eliminated by more systematic and repeated flushing of the pipeline, a practice which he asserted had been instituted. The witness also stated that the low pressures and interruptions in service had been caused during periods of heavy demands on the system when the supplemental ditch had to be turned on manually, a condition now remedied by the installation of an automatic regulatory valve.

Commission Staff's Presentation

Exhibit No. 3 presents the results of an investigation of applicant's operations by the accounting and engineering representatives of the Commission's staff, based on a field inspection of the system and an examination of applicant's records. Average depreciated rate bases were determined after making certain adjustments to the plant accounts. Operating revenues and expenses were estimated for the years 1960 and 1962 on the basis of an average number of 77 and 104 customers, respectively. The following tabulation summarizes the

results of the staff's estimates:

<u>Item</u>	<u>1960 Adjusted</u>		<u>1962 Estimated</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 1,150	\$ 2,665	\$ 1,490	\$ 3,460
<u>Deductions</u>				
Operating Expenses	1,925	1,925	2,010	2,010
Taxes Other Than Income	170	170	190	190
Depreciation Expense	640	640	890	890
Income Taxes	100	100	100	180
Total Deductions	\$ 2,835	\$ 2,835	\$ 3,190	\$ 3,270
Net Revenues	(1,685)	(170)	(1,700)	190
Avg. Depreciated Rate Base	16,810	16,810	15,890	15,890
Rate of Return	Loss	Loss	Loss	1.2%

(Red Figure)

From the foregoing tabulation it may be seen that applicant can expect little or no return on its investment in utility plant until more complete development of the subdivisions takes place.

In addition to certain recommendations pertaining to the filing of tariffs and maps and to depreciation practices, the staff made various recommendations toward the improvement of the water system and consequent service to be expected therefrom. Applicant has already commenced carrying out some of these recommendations and others will be incorporated in the order herein.

#### Findings and Conclusions

Upon consideration of the evidence the Commission finds and concludes as follows:

1. Public convenience and necessity require that the application be granted as set forth in the ensuing order.
2. Applicant possesses the financial resources to acquire, construct and operate the proposed water system.
3. The money, property or labor to be procured or paid for by the issuance of the stock herein authorized is reasonably required



for the purposes specified and such purposes are not in whole or in part reasonably chargeable to operating expenses or to income. The authorization herein granted is not to be construed as a finding of value of applicant's stock or properties, nor as indicative of amounts to be included in any future rate base for determination of just and reasonable rates.

4. The estimates of operating revenues, expenses, including taxes and depreciation, and the rate bases as submitted by the staff for the years 1960 and 1962 reasonably represent the results of applicant's operations and they will be and hereby are adopted for the purposes of this proceeding.

5. The proposed basic annual flat rate of \$36 does not appear to be unreasonable or excessive and will be authorized for service to all connections not larger than 3/4-inch in diameter, with provision for a charge of \$21 for service to an additional residence or business establishment on the same premises and served from the same service connection. However, the proposed meter rates will be revised somewhat by the establishment of a schedule of rates for metered service more consistent with the flat rate schedule and in a form more conventional for the type of service offered by applicant.

6. The increases in rates and charges authorized herein are justified, the rates and charges set forth in Appendix A attached hereto are fair and reasonable for the service to be rendered, and the present rates and charges, in so far as they differ from those herein prescribed, are for the future unjust and unreasonable.

7. While certain portions of applicant's water system do not fully meet the minimum requirements of the Commission's General

Order No. 103, having been constructed prior to the effective date thereof, applicant's water supply and distribution facilities will provide reasonably adequate service for the proposed certificated area. Applicant is put on notice that any reconstruction and all new construction of such facilities must be in accordance with the said order.

The certificate hereinafter granted shall be subject to the following provision of law:

That the Commission shall have no power to authorize the capitalization of this certificate of public convenience and necessity or the right to own, operate, or enjoy such certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right.

O R D E R

Public hearing having been held and based upon the evidence therein adduced,

IT IS ORDERED that a certificate of public convenience and necessity be and it is hereby granted to Cedar Ridge Water

Company, a corporation, authorizing it to acquire, construct and operate a public utility water system for the distribution and sale of water within the unincorporated area designated as Cedar Ridge Subdivisions Nos. 1, 2, 3 and 4 in Tuolumne County, as shown on the map filed as Exhibit B, attached to the application, and as supplemented by the map filed as Exhibit No. 1 in this proceeding.

IT IS FURTHER ORDERED that:

1. Applicant is authorized and directed to file, after the effective date of this order, the schedules of rates and charges set forth in Appendix A attached to this order, to be effective on or before the date service is first rendered to the public under the authority herein granted, together with rules governing service to customers, a tariff service area map and sample copies of printed forms normally used in connection with customers' services, all in a form acceptable to this Commission and in accordance with the requirements of General Order No. 96. Such rates, rules, tariff service area map and forms shall become effective upon five days' notice to this Commission and to the public after filing as hereinabove provided.

2. Applicant shall notify this Commission, in writing, of the date service is first rendered to the public under the rates and rules authorized herein, within ten days thereafter.

3. Applicant shall file, within thirty days after the system is placed in operation under the rates and rules authorized herein, four copies of a comprehensive map, drawn to an indicated scale

not smaller than 400 feet to the inch, delineating by appropriate markings the 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 1961, applicant shall determine depreciation expense by multiplying depreciable utility plant by a rate of 3.0 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. If the authorization herein granted is exercised, applicant shall take steps to clarify the title to or the right to occupy the sites on which the springs, tanks and chlorinating unit are located, as well as similar title to or written agreements defining water rights and pipeline easements and rights of way; also, applicant shall expressly dedicate to public utility purposes the land parcels or areas, other than those covered by United States Government leases, on which the springs, tanks, chlorinating unit, and related water facilities are located, and any easements or permits where water mains are located, otherwise than in streets dedicated to public use. Within sixty days after the system is first placed in operation under the rates and rules authorized herein, applicant shall file one copy of each appropriate document showing such rights, dedication, easement or permit.

6. If the authorization herein granted is exercised:
  - a. Within thirty days after the system is first placed in operation under the rates and rules authorized herein, applicant shall have instituted a program for monthly analysis, by an approved laboratory, of the sanitary quality of the water furnished to the customers, and shall report to the Commission in writing, within ten days thereafter, that this program has been instituted.
  - b. Within forty-five days after the system is first placed in operation under the rates and rules authorized herein, applicant shall have instituted a program, acceptable to the Commission, for the progressive replacement, within a reasonable period of time, of the existing 4-inch and 6-inch black steel transmission mains with piping that will conform to the requirements of the Commission's General Order No. 103, and shall report to the Commission in writing, within ten days thereafter, that this program has been instituted.
  - c. Prior to December 31, 1961, applicant shall adequately fence the areas in which the springs and tanks are located, including suitable locked gates, to prevent access thereto by unauthorized persons or by large animals, and shall report to the Commission in writing, within ten days thereafter that the said structures have been installed.
7. After the effective date hereof and on or before December 31, 1961, applicant may issue 100 shares of its capital stock, without par value, for the purposes specified in the foregoing opinion.
8. Applicant shall file with this Commission a report or reports as required by General Order No. 24-A, which order in so far as applicable is hereby made a part of this order.
9. The certificate herein granted and the authority to render service under the rates and rules authorized herein will expire if

not exercised within one year after the effective date of this order.

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

Dated at San Francisco, California, this 8th day of August, 1961, California. 16.

General A. W. Rogers  
President

John E. Mitchell

John Fox

George L. Hoover

Fredrick B. Holbrook  
Commissioners

APPENDIX A  
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Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area known as Cedar Ridge Subdivisions Nos. 1, 2, 3 and 4, and vicinity, located approximately 5½ miles northwest of the community of Twain Harte, Tuolumne County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Monthly Quantity Rates:	
First 700 cu.ft. or less .....	\$ 2.75
Next 1,300 cu.ft., per 100 cu.ft. ....	.30
Next 2,000 cu.ft., per 100 cu.ft. ....	.25
Over 4,000 cu.ft., per 100 cu.ft. ....	.20
	<u>Per Meter</u> <u>Per Year</u>
Annual Minimum Charge:	
For 5/8 x 3/4-inch meter .....	\$ 33.00
For 3/4-inch meter .....	48.00
For 1-inch meter .....	75.00
For 1½-inch meter .....	132.00
For 2-inch meter .....	204.00

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.

(Continued)

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE  
(Continued)

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1, is due in advance and is payable in annual, semiannual or quarterly installments at option of customer.
2. The charge 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. 2A

ANNUAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area known as Cedar Ridge Subdivisions Nos. 1, 2, 3 and 4, and vicinity, located approximately 5½ miles northwest of the community of Twain Harte, Tuolumne County.

RATES

	<u>Per Service Connection Per Year</u>
For each single family residential unit or business establishment .....	\$36.00
a. For each additional residential unit or business establishment on the same premises and served from the same service connection .....	21.00

SPECIAL CONDITIONS

1. The annual flat rate applies to service during the 12-month period commencing January 1, is due in advance and is payable in annual, semiannual or quarterly installments at the option of customer.

2. The above flat rate applies to service connections not larger than 3/4-inch in diameter.

3. All service not covered by the above classification will be furnished only on a metered basis.

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

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized fire districts or other political subdivisions of the State.

TERRITORY

The unincorporated area known as Cedar Ridge Subdivisions Nos. 1, 2, 3 and 4, and vicinity, located approximately 5 1/2 miles northwest of the community of Twain Harte, Tuolumne County.

RATE

Per Year

For each 2 1/2-inch wharf type hydrant supplied from a main 4 inches or larger in diameter .....	\$5.00
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SPECIAL CONDITIONS

1. The annual rate applies to service during the 12-month period commencing January 1, is due in advance and is payable in annual, semiannual or quarterly installments at option of customer.
2. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1A, Annual General Metered Service.
3. The cost of installation and maintenance of hydrants will be borne by the utility.
4. Relocation of any hydrant shall be at the expense of the party requesting relocation.
5. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.