

62828

Decision No. \_\_\_\_\_

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of John B. Kelly, Jr.  
and Nancy A. Kelly, DBA LAKE ALMANOR }  
WATER SUPPLY to operate a water }  
system at and near Lake Almanor, }  
Plumas County; and to raise rates. }

Application No. 43082  
(Filed January 18, 1961)

John B. Kelly, Jr., for applicants.  
William Cullen, for Plumas County Health Department,  
Interested party.  
William Twitchell, a consumer, protestant.  
W. E. Fites, A. W. Pierce, Louis Richens, and Otis  
L. Sayer, consumers, interested parties.  
L. L. Thormod and Clyde F. Norris, for the  
Commission staff.

O P I N I O N

This application was heard before Examiner E. Ronald Foster at Westwood on July 11, 1961, on which date the matter was submitted subject to the later filing of certain exhibits, the last of which was received August 3, 1961. Copies of the application had been sent and notices of the hearing had been given in accordance with the Commission's procedural rules. Over forty of applicants' water users attended the hearing, several of whom testified in protest to the nature and extent of the proposed increases in rates for water service.

Applicants' Requests

The applicants, husband and wife, operating as a copartnership, request the issuance of a certificate of public convenience and necessity to construct, maintain and operate a public utility water system under the name of Lake Almanor Water Supply, which name was registered in Plumas County on December 27, 1957. The area for

which a certificate is requested is shown on Exhibit No. 3 and includes seven subdivisions comprising 472 lots in a resort area extending about three miles along the northeastern shore of Lake Almanor in Plumas County, some five miles southwest of the community of Westwood.

The water system serving this area was originally constructed by the Red River Lumber Company about 1925, with substantial improvements added in 1946. After several transfers of ownership, the water system was acquired by applicants on June 21, 1957. The rates for water service being charged at that time have continued to be charged by applicants who now seek authority to increase the rates as proposed in the application, which would produce more than 100 percent greater revenues. Applicants are now operating the water system under a permit dated June 9, 1958, granted by the Plumas County Health Department.

#### Description of the System

Applicants have an entitlement to a flow of three cubic feet of water per second from Schumaker Springs which are located about 1½ miles north of the service area, in the northwest quarter of the northeast quarter of Section 16, Township 28 North, Range 3 East, M.D.B.&M. (see Exhibits No. 5 and No. 9). In 1959 a covered concrete basin was constructed at the springs which are approximately 220 feet higher than the service area.

The two transmission mains from the springs consist of one line, about 9,760 feet long, of heavy boiler tubing varying from 3½ to 2 inches in diameter, installed in 1925; and another line, about 3,340 feet long, of 6-inch steel pipe installed in 1946.

The distribution system now installed to serve the 362 lots in the five tracts exclusive of the two Hamilton Branch Subdivisions

comprises about 16,100 feet of 4-inch and 300 feet of 2-inch pipe. As of December 31, 1960, there were 123 3/4-inch service connections, of which 32 were equipped with 5/8 x 3/4-inch meters. Four wharf type fire hydrants are installed, three of which are supplied from 4-inch mains and the other from a 2-inch main. A customer paid \$12.50 for the installation of one of these hydrants.

Within the last two years, a subdivider has installed additional distribution mains to serve 110 lots in the two Hamilton Branch Subdivisions, which are interconnected with the transmission and distribution system previously described. The subdivider has installed six standard, or barrel-type, hydrants in these tracts. The details of the lengths and sizes of the mains and other facilities installed by this subdivider have not been made available for the record herein. It is not clear from the record whether such facilities are to be furnished by the subdivider as contributions, as advances for construction, or otherwise. At the time of the hearing, the cost thereof had not been taken into account by the applicants.

Rates, Present and Proposed

Applicants are presently applying the following schedule of rates for metered service:

<u>Quantity Rates</u>	<u>Present Rates</u>	<u>Per Meter Per Month</u>
First 7,500 gal. or less .....		\$1.50
Next 7,500 gal., per 1,000 gal. ....		.16
Next 200,000 gal., per 1,000 gal. ....		.094
Over 215,000 gal., per 1,000 gal. ....		.067

Meters are read only during the summer. During the months when meters are not read and for service where meters are not installed, customers are charged at the minimum meter rate of \$1.50 per month.

No schedule of flat rates has been proposed. There follows the schedule of rates for metered service, in units of 1,000 gallons, as proposed by applicants, together with an approximately equivalent schedule in units of 100 cubic feet of water:

Quantity Rates Per Meter Per Month

<u>Proposed, in Units of 1,000 Gals.</u>		:	<u>Appr. Equiv., in Units of 100 C.F.</u>	
		:		
		:		
First 5,000 gal. or less .....	\$3.00	:	First 667 c.f. or less .....	\$3.00
Next 10,000 gal., per 1,000 gal. ..	.45	:	Next 1,333 c.f., per 100 c.f. ....	.338
Next 10,000 gal., per 1,000 gal. ..	.35	:	Next 1,333 c.f., per 100 c.f. ....	.263
Over 25,000 gal., per 1,000 gal. ..	.30	:	Over 3,333 c.f., per 100 c.f. ....	.225

The following tabulation compares the cost of various monthly quantities of water at the rates presently being charged and at the rates proposed by applicants:

<u>Monthly Quantities</u>		<u>Monthly Charges</u>		<u>Increase in Monthly Charge</u>	
<u>Gallons</u>	<u>Cu.Ft. (Apprx.)</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount</u>	<u>Percent</u>
5,000	667	\$ 1.50	\$ 3.00	\$ 1.50	100%
7,500	1,000	1.50	4.125	2.625	175
10,000	1,333	1.90	5.25	3.35	176
15,000	2,000	2.70	7.50	4.80	178
25,000	3,333	3.64	11.00	7.36	202
50,000	6,667	5.99	18.50	12.51	209
75,000	10,000	8.34	26.00	17.66	212
100,000	13,333	10.69	33.50	22.81	213

Customer Participation

Several of applicants' customers voiced their opposition to the amount of the proposed increase in rates. Some of them pointed out that they occupy their premises only on week ends or during the summer months, while others occupy their premises the whole year; it was their contention that the charges for water service should reflect the extent to which various classes of water users make actual use thereof.

According to applicants' records, there are about 30 permanent or year-round residents, approximately 65 summer residents and some 30 who use their premises only on special occasions, holidays and week ends. The record does not reveal how many of each

group of customers are served at meter rates or how many are billed on a flat rate basis.

Some customers expressed concern as to the adequacy of the system to supply the increasing number of customers. No valid testimony was offered that there has been any lack of pressure or insufficient supply of water to date.

#### Estimated Results of Operation

A review of the testimony presented both by the applicants and by the Commission's staff indicates that losses in operation would result from revenues obtainable at the rates presently being charged. Following is a tabulation showing the results of operation as estimated for the year 1961 at the proposed rates, as presented by applicants in their late-filed Exhibits No. 6 and No. 8 and by the staff in Exhibit No. 4 supplemented by late-filed Exhibit No. 10:

#### Summary of Earnings Year 1961 Estimated - Proposed Rates

	<u>Applicants</u>	<u>Staff</u>
<u>Operating Revenues</u>		
From 96 Flat Rate Customers		\$ 3,455
From 37 Metered Customers		2,395
Total Revenue	\$ 6,000	5,850
<u>Operating Expenses</u>		
Maintenance and Operation	2,463	2,400
Depreciation	1,190	1,062
Taxes	465	523
Total Expenses	4,118	3,985
Net Revenue	1,882	1,865
<u>Rate Base</u>		
Average Utility Plant	29,340	31,518
Average Materials and Supplies	300	973*
Average Working Cash	400	400
Subtotal	30,040	32,891
Average Depreciation Reserve	3,978	7,887
Average Depreciated Rate Base	26,062#	25,004
USE	26,000#	25,000
Rate of Return	7.2%#	7.5%

\* Amount includes large stock of new meters.

# Rate base and rate of return as shown in applicants' Exhibits No. 6 and No. 8 were \$27,000 and 6.9%, respectively. Those amounts were arithmetically inaccurate and have been corrected.

An analysis of the rate base determinations reveals that applicants' amount for utility plant includes the initial amount of \$15,000 which they paid for the system in 1957, plus certain subsequent additions and including an amount of \$10,000 as the estimated cost of the distribution facilities in the two Hamilton Branch Subdivisions, details of which are not yet available and the manner of acquisition of which by applicants has not yet been decided. The average depreciated rate base shown by applicants is made more unrealistic by the use of a grossly inadequate depreciation reserve.

On the other hand, the staff made an appraisal of the estimated historical cost of the water system properties as of December 31, 1960, the details of which are shown in Exhibit No. 10 and the results of which are incorporated in Exhibit No. 4. Inspection of Exhibit No. 10 and investigation of the reserve for depreciation as of December 31, 1960, shown therein, reveals that it was computed by the five percent sinking fund method. Analysis of the plant figures shows that over 75 percent of the total plant was installed in 1946 or earlier, with an estimated service life of 40 years or less. Therefore, it is apparent that the reserve for depreciation as shown on these exhibits is considerably understated.

To be consistent with the adoption by the Commission of the straight-line remaining life method of determining annual depreciation expense, the reserve for depreciation for these properties should be computed by the straight-line total life method. Using the estimated historical costs, average service lives and ages of the various items of plant as shown in Exhibit No. 10,

the following tabulation shows the results of such computations by the straight-line total life method:

Appraisal of Properties and Associated Reserve Requirement  
as of December 31, 1960

Ac. No.	Description	Estimated Historical Cost	Annual Deprec. Charge	Percent of Depreciable Plant	Associated Reserve Requirement	Depreciated Net Plant
301	Organization	\$ 154	\$ -	-%	\$ -	\$ 154
311	Structure	995	33	3.3	33	962
343	Trans. & Distr. Mains	28,932	744	2.6	11,769	17,163
345	Services	608	20	3.3	399	209
346	Meters	482	14	2.9	83	399
348	Hydrants	100	3	3.0	53	47
372	Office Equip.	82	8	9.8	33	49
373	Transp. Equip.	<u>100</u>	<u>11</u>	<u>11.0</u>	<u>22</u>	<u>78</u>
	Total	31,453	833	2.7	12,392	19,061

Note: No salvage has been considered in this computation.

In the rate base to be adopted herein for the year 1961, the staff's estimate of additions for ten new customers will be used, with the corresponding increases in the depreciation expense and reserve. An amount of \$500 for materials and supplies will be used as a reasonable allowance for a water utility of this size and character.

The record shows that applicants have collected from prospective customers various amounts for making service connections to their properties, called "hook-up charges". Late-filed Exhibit No. 7 is a detailed list submitted by applicants showing all such hook-up charges by years for the period from July 1957

through June 1961. The following tabulation summarizes the information shown on the five pages of the exhibit:

<u>Year</u>	<u>Number of Charges at Various Amounts</u>				<u>Total Charges</u>
	<u>\$25</u>	<u>\$100</u>	<u>\$125</u>	<u>\$250</u>	
1957	2				\$ 50
1958	6		1		275
1959	5		2		375
1960	12			1	550
1961	<u>7</u>	<u>1</u>	<u>...</u>	<u>...</u>	<u>275</u>
Totals	32	1	3	1	\$1,525

Applicants represent that it was their intention to continue to operate the water system in the same manner that it had been operated prior to their acquisition and that the "book-up charges, in effect, subsidized the low rate paid by water system customers during the past several years." Such a practice of charging varying amounts for service connections results in discrimination between customers and is contrary to the policy of the Commission which requires the utility to install such service connections at its own expense. Applicants are put on notice that this practice should be discontinued.

In the light of the record in this proceeding it appears that the amounts so collected from customers for service connections actually represent contributions in aid of construction, and we so find. The amount of \$1,525 will be treated as a deduction from utility plant in arriving at the rate base.

To reduce the discrimination against the summer residents and week-end water users, seasonal charges will be established in



rates hereinafter authorized. Also there will be authorized a schedule of flat rates compatible with those for metered service. For the purposes of this proceeding, the 37 metered customers will be considered as permanent residents using an average of 2,000 cubic feet per month during the summer season and using no more during the winter season than the 700 cubic feet allowed for the minimum charge. The 96 flat rate customers will be considered as summer season users only.

The following tabulation shows the results of operation for the estimated year 1961 as revised, at the rates to be authorized by the order herein:

Revised Summary of Earnings  
Year 1961 Estimated - Authorized Rates

<u>Item</u>	<u>Amount</u>
<u>Operating Revenues</u>	
From 96 Flat Rate Customers	\$ 2,880
From 37 Metered Customers	<u>2,200</u>
Total Revenue	5,080
<u>Operating Expenses</u>	
Maintenance and Operation	2,400
Depreciation	337
Taxes	<u>513</u>
Total Expenses	<u>3,750</u>
Net Revenue	<u><u>1,330</u></u>
<u>Rate Base</u>	
Average Utility Plant	31,582
Average Materials and Supplies	500
Average Working Cash	<u>400</u>
Subtotal	32,482
Average Depreciation Reserve	<u>(12,810)</u>
Contributions in Aid of Construction	<u>(1,525)</u>
Average Depreciated Rate Base	18,147
Rate of Return	7.3%

Deductions

In the rate base shown in the foregoing revised summary of earnings, it should be noted that nothing has been included for the distribution system installed by the subdivider in the two Hamilton Branch subdivisions. If not donated outright to the owners of the utility, it is probable that applicants and the subdivider will enter into a water main extension agreement, in which case the amount, when finally determined, will constitute refundable advances for construction. In either case the rate base will not be affected and the results of operation will not be substantially different for the immediate future.

#### Water Meters

The schedule of rates for metered service now being used by applicants is stated in units of 1,000 gallons and all of applicants' meters, installed and in stock, register deliveries of water in gallons. In line with a continuing policy to achieve as much uniformity as possible in the form of rate schedules as set forth in General Order No. 96 and for convenience of comparison, the Commission staff recommended that the rates for measured service authorized in this proceeding be stated in units of 100 cubic feet instead of in units of 1,000 gallons as at present.

While applicants will not be required by the order herein to convert the dials of their existing meters from readings in gallons to cubic feet, it is recommended that applicants make such conversions at least whenever replacements and repairs to their existing meters make such conversion feasible, and that all new meters when installed, should first be converted to register deliveries in cubic feet.

The schedule of rates for metered service hereinafter authorized will be stated in units of 100 cubic feet. For as long as

there may be any customers' meters registering consumption in gallons, applicants will be required to have posted in their office, for the convenience of all customers, a table illustrating the conversion of meter readings in gallons to billing quantities in cubic feet, together with appropriate charges therefor.

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. Applicants possess the financial resources to construct, maintain and operate the water system involved herein.

3. The evidence demonstrates that revenues obtained from existing water rates are inadequate to meet applicants' reasonable needs and that applicants are entitled to increased revenues. However, the rates proposed by applicants are deficient in that no flat rate is included and they are discriminatory as between permanent residents and seasonal water users.

4. The estimates of operating revenues, expenses, including depreciation and taxes, and the rate base as shown in the foregoing revised summary of earnings for the year 1961 at the rates authorized hereinafter reasonably represent the results of applicants' operations for the near future and they hereby are adopted for the purposes of this proceeding.

5. Under the conditions found to exist in the present proceeding, a rate of return of 7.3 percent on the revised estimated rate base of \$18,147 is reasonable.

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, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

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 John B. Kelly, Jr. and Nancy A. Kelly, his wife, authorizing them to construct, maintain and operate a public utility water system, to be known as Lake Almanor Water Supply for the distribution and sale of water within the unincorporated area extending along the northeastern shore of Lake Almanor in Plumas County, including the subdivisions designated as Lake Almanor Peninsula Units No. 1 and No. 2, Lake Almanor Homesites Units No. 1 and No. 2, Hamilton Branch, Dimick Almanor Unit No. 1, and Hamilton Branch Addition No. 1, all located approximately five miles southwest of the community of Westwood, as delineated on the map filed as Exhibit No. 3 in this proceeding.

IT IS FURTHER ORDERED that:

1. Applicants are 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. Applicants 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. Applicants 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 applicants.

4. Beginning with the year 1961, applicants shall determine depreciation expense by multiplying depreciable utility plant by a rate of 2.7 percent. This rate shall be used until review indicates it should be revised. Applicants shall review the depreciation rate using the straight-line remaining life method when major changes in utility plant composition occur and at intervals of not more than five years, and shall revise the above rate in conformance with such reviews. Results of these reviews shall be submitted to this Commission.

5. Within fifteen days after the system is placed in operation under the rates and rules authorized herein, and continuously thereafter as long as there are any customers' meters registering consumption in gallons, applicants shall have posted in their Plumas County office and open to public inspection, a table illustrating the conversion of meter readings for each 1,000 gallons, from zero to 30,000 gallons, to billing quantities in cubic feet, together with the appropriate charges therefor at the currently effective rate schedules. Within ten days after the initial posting, applicants shall file with the Commission two copies of such conversion table.

6. Within sixty days after the system is placed in operation under the rates and rules authorized herein, applicants shall render a written report to the Commission stating the manner in which they have acquired or propose to acquire the water system facilities installed in Hamilton Branch Subdivision and in Hamilton Branch Subdivision Addition No. 1, whether by purchase, contributions, refundable advances for construction, or otherwise; to the said report there shall be appended two copies of any agreement entered into or proposed to be entered into between applicants and the subdivider or subdividers who installed the said facilities.

7. Within ninety days after the system is placed in operation under the rates and rules authorized herein, applicants shall submit in writing to the Commission, in duplicate, the proposed journal entries to set up on their books of account substantially the following:

- (a) The estimated historical cost of the water system properties totaling \$31,452 as of December 31, 1960, and the associated reserve for depreciation of \$12,392 at the same date.

- (b) The original cost, installed, of the water system facilities described in the foregoing ordering paragraph 6.
- (c) The actual cost of any water system facilities installed and in operation, in addition to those included in paragraphs (a) and (b) of this ordering paragraph 7.

The certificate herein granted and the authority to render service under the rates and rules authorized herein will expire if not exercised within ninety days 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 21<sup>st</sup> day of NOVEMBER, 1961.

*Carroll J. [Signature]*  
 President  
*Paul E. [Signature]*  
*S. [Signature]*  
*George H. [Signature]*  
*Fredrick B. [Signature]*  
 Commissioners

APPENDIX A  
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Schedule No. 1S

SEASONAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

An area extending about three miles along the northeastern shore of Lake Almanor, in Plumas County, located approximately 5 miles southwest of Westwood.

RATES

Per Meter  
Per Month

Monthly Quantity Rates:

First	700 cu.ft. or less. . . . .	\$ 3.00
Next	1,300 cu.ft., per 100 cu.ft. . . . .	.30
Next	8,000 cu.ft., per 100 cu.ft. . . . .	.20
Over	10,000 cu.ft., per 100 cu.ft. . . . .	.15

Per Meter  
Per Season

Seasonal Minimum Charge:

For	5/8 x 3/4-inch meter . . . . .	\$18.00
For	3/4-inch meter . . . . .	25.50
For	1-inch meter . . . . .	39.00
For	1 1/2-inch meter . . . . .	63.00
For	2-inch meter . . . . .	96.00

The Seasonal Minimum Charge will entitle the customer to the quantity of water each month which one-sixth of the seasonal minimum charge will purchase at the Monthly Quantity Rates.

(Continued)



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Schedule No. 1S

SEASONAL GENERAL METERED SERVICE  
(Continued)

SPECIAL CONDITIONS

1. Service may be taken under this schedule for either the summer season, April 1 through September 30, or the winter season, October 1 through March 31, or both seasons.
2. The seasonal minimum charge is payable in advance on or before the initial day of the season.
3. The charge for water used in excess of the quantity allowed each month for the seasonal minimum charge may be billed monthly, bimonthly or quarterly at the option of the utility on a noncumulative monthly consumption basis.

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Schedule No. 2RS

SEASONAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

An area extending about three miles along the northeastern shore of Lake Almanor, in Plumas County, located approximately 5 miles southwest of Westwood.

RATE

	Per Service Connection	
	<u>Per Season</u>	
	Summer	Winter
	<u>Season</u>	<u>Season</u>

For a single family residential unit, including premises . . . . .	\$30.00	\$20.00
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SPECIAL CONDITIONS

1. The above residential flat rate applies to service connections not larger than one inch in diameter.
2. All seasonal residential service not covered by the above classification will be furnished only on a metered basis.
3. Service may be taken under this schedule for either the summer season, April 1 through September 30, or the winter season, October 1 through March 31, or both seasons.
4. Meters may be installed at option of utility for above classification, in which event service thereafter will be furnished only on the basis of Schedule No. 1S, Seasonal General Metered Service.
5. The seasonal flat rate charge is payable in advance on or before the initial day of the season.

APPENDIX A  
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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

An area extending about three miles along the northeastern shore of Lake Almanor, in Plumas County, located approximately 5 miles southwest of Westwood.

RATES

		<u>Per Hydrant Per Month</u>		
		<u>Diameter of Main Supplying Hydrant:</u>		
<u>Type of Hydrant</u>		<u>2"</u>	<u>4"</u>	<u>6" or larger</u>
Wharf or Riser Type	\$1.00	\$1.50	\$2.00	
Standard or Barrel Type	-	2.00	2.50	

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1S, Seasonal General Metered Service.
2. The cost of installation and maintenance of hydrants will be borne by the utility.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.
4. 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.