

ORIGINALDecision No. 63641

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the service, operations, rules and practices of PACIFIC WATER CO., a corporation. (Big Bear phase)

Case No. 6387
(Filed November 24, 1959)

In the Matter of the Application of PACIFIC WATER CO., a California corporation, under Section 454 of the Public Utilities Code, to increase its rates for its Big Bear Water System in San Bernardino County, California.

Application No. 43561
(Filed June 28, 1961)

Moss, Lyon & Dunn, by George C. Lyon, for applicant and respondent.
Elizabeth De Wolf, in propria persona, and for Community Association for Sugarloaf and Lake Erwin Areas, Arthur P. Kooyman, Paul Gerent, Mrs. Lorraine Setterholm, Eva R. Long, F. A. Weber, Guy E. Seymour, Walter A. Guthrie, Mrs. Merle J. Unger, Jr., Rolland Spickelmier, Lewis James, Fred W. Moorehead, Mrs. Carmel H. Botkin, Calvin H. Patrick, M. Webber, Lester L. Whitmore, Mrs. Everett R. Brown, Roger L. Downs, I. E. Lawson, Marjorie Schramling, Amy M. Smith, and William G. Steele, protestants.
Andrew J. Miller, Mary S. English, and Walter E. Mann, interested parties.
William C. Bricca and Sesto F. Lucchi, for the Commission's staff.

O P I N I O N

Pacific Water Co. (applicant) is a California corporation furnishing domestic water to consumers in 14 separate systems in Kern, San Bernardino, Orange and Los Angeles Counties. By the application herein, filed with this Commission on June 28, 1961,

it seeks authority to increase its rates in its Big Bear Water System in San Bernardino County, California.

Case No. 6387 is an investigation on the Commission's own motion into the service, operations, rules and practices of applicant in all its systems, the hearing herein being limited to the Big Bear System.

Public hearings on the application and case were held before Examiner Kent C. Rogers at Big Bear Lake on October 4, 5, and 6, 1961, and at Los Angeles on November 13 and 14, 1961. Prior to the first day of hearing, notice thereof was posted, published, and mailed to interested parties and all consumers. Numerous written communications, mostly protests, were received by the Commission. In addition, 25 consumers and/or representatives of groups or associations of consumers appeared at the hearings. The majority of these protested the increase on the ground that the rates are excessive at present and any increase is unwarranted. Some stated they would discontinue as water users if the rates are increased. There were numerous complaints of low water pressure or complete water failure on occasion. On behalf of a large block of consumers it was urged, among other things, that applicant is incurring excessive operating costs due to leakage and wastage of water. Several of the protestants requested less than annual rates for the benefit of the non-resident vacation cabin owner.

On behalf of the Community Association for the Sugarloaf and Lake Erwin Areas (hereinafter referred to as the association), several motions were made by its secretary. These included motions that the requested increase be denied entirely; that the

report of the Commission's staff on Case No. 6387 be rejected; that applicant be ordered to obtain from the State Department of Public Health a license to operate its system; and that the Commission accept responsibility for the overbuilt system. As will be seen from the discussion which follows, these motions are not meritorious and they are hereby denied. The representative of the association called as a witness a senior sanitary engineer of the State Department of Public Health, who referred to an application of the water company for a water supply permit, and stated that applicant had been given a temporary permit which had expired on August 1, 1961, and required the following:

- (1) Completion of a new well or supplemental supply.
- (2) Reconstruction of the lower reservoir and sealing of the upper reservoir.
- (3) Replacement of leak-prone mains.
- (4) Relocation of mains subject to freezing.
- (5) Change of treatment of corrosive well water from the use of sodium hexametaphosphate to sodium carbonate.

The Application

In its Big Bear system, applicant has one metered consumer and, on November 14, 1961, had 442 active flat rate connections and one metered connection in three pressure zones. There are approximately 8,000 lots in the service area, totaling about 670 acres, each of which has a water main available to it. In addition to the presently active services, connections have been made and service thereafter disconnected to an additional 220 lots.

The total water supply is now from two wells. Applicant has two productive but non-operative wells available. All

of said wells are in applicant's Woodlands Tract which is approximately one mile northeast of the main service area.

Applicant's Woodlands Well No. 3 (Well No. 27) is 8 inches in diameter, 288 feet in depth, and equipped with a deep-well turbine pump powered with a diesel engine. As equipped, it has a capacity of 75 gallons of water per minute.

Applicant's Woodlands Well No. 2 (Well No. 26) is 10 inches in diameter, 100 feet in depth, and equipped with a Jacuzzi pump powered with a gasoline engine. As so equipped it is capable of producing 36 gallons of water per minute.

The wells referred to are at an elevation of 6,800 feet.

Water is stored in two reservoirs. The upper reservoir is at an elevation of approximately 7,351 feet and has a capacity of 80,000 gallons. The lower reservoir is at an elevation of approximately 7,216 feet and has a capacity of 60,000 gallons.

The system has three booster pumps and three pressure zones. Water from the wells is pumped via Zone No. 2 to the lower reservoir. By the use of two pressure-reducing valves a portion of this water is allowed to return to Zone No. 3. Two booster pumps are used to elevate the water to the upper reservoir, from which water is distributed to Zones Nos. 1 and 2.

The authorized flat rate is \$48 per year for the water year beginning on March 1. Applicant proposes to double this rate to \$96 per year with an approximately corresponding increase for its one metered customer.

Applicant also requests authority to add a condition, No. 7, reading as follows:

Where negligent or wasteful use of water exists from a customer's service seriously affecting the general service, the utility may discontinue the service if such conditions are not corrected within three hours after verbal notification of intent to do so has been given the customer by an agent of the utility. Restoration of service will be made as outlined in Rule No. 11F and service will thereafter be rendered only under Schedule No. Big Bear - 1-A, Monthly Metered Service.

The requested monthly metered rate for water users subject to such penalty would be a minimum of \$108 per year for a 5/8" by 3/4" connection on a metered basis whereby the first 500 cubic feet each month would cost \$9.00 and each additional 100 cubic feet would cost 80 cents.

We find that said proposed special rate and special condition are discriminatory and unreasonable; they will not be authorized. Instead, applicant should incorporate a special condition in its flat rate schedule similar to the following:

For service covered by the above classification, if either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. BB-1A, Annual General Metered Service.

Earnings

Exhibit No. 1, submitted by applicant, is a report on the results of applicant's operations for the year 1960, recorded, the year 1960, adjusted, and the year 1961, estimated, both at present and proposed rates. Exhibit No. 11, submitted by accounting and engineering representatives of the Commission's staff, is also a report of the company's results of operation during the same periods. Each exhibit contains a summary of earnings, which information is summarized and compared in the following tabulation:

Item	1960		1961			
	Recorded (Exh. #1)	Adj.P.U.C. (Exh.#11)	Present Rates Company	Present Rates Staff	Proposed Rates Company	Proposed Rates Staff
Operating Revenues	\$16,836	\$18,700	\$19,224	\$19,450	\$38,436	\$38,900
<u>Operating Expenses</u>						
Oper.& Maint. Exp.	17,278	17,580	22,805	18,000	22,805	18,000
Adm.& Misc. Exp.	6,911	5,970	8,411	6,300	8,411	6,300
Subtotal	24,189	23,550	31,216	24,300	31,216	24,300
Taxes Other Than on Income	2,024	1,820	2,139	1,920	2,139	1,966
Depreciation	4,941	3,690	4,936	3,830	4,936	3,830
Inc.Taxes(S.L.Depr.)	(12,152)	(6,860)	(14,594)	(6,970)	(4,097)	3,650
Total Oper. Exp.	19,002	22,200	23,697	23,080	34,194	33,746
<u>Net Revenue</u>						
Straight-Line Depr.	(2,166)	(3,500)	(4,473)	(3,630)	4,242	5,154
Depr. Rate Base	169,288	119,730	169,861	120,660	169,861	120,660
<u>Rate of Return</u>						
Straight-Line Depr. %	(1.28)	(2.92)	(2.63)	(3.01)	2.50	4.27

(Red Figure)

Applicant and the staff each estimated approximately the same revenues for the year 1961 at the proposed rates. Applicant estimated an average of 397 active consumers in 1961 and the staff estimated 402. Judging by the past, if any increase in rates is granted there will be a substantial loss of consumers. Applicant's estimated revenues of \$38,436 are reasonable and will be used.

Applicant estimated that its operation and maintenance expenses would be \$22,805 in 1961. The staff estimated \$18,000, a net difference of \$4,805. The major differences in the estimates relate to pumping expenses and transmission and distribution expenses. Applicant's pumping expense estimate of \$9,551 was based

on its 1959 and 1960 recorded figures; records show that in those years applicant's pumping equipment was extensively overhauled at substantial cost. The staff estimate of \$8,400 for pumping expenses is reasonable and will be used.

There are two items in the transmission and distribution expense estimates for 1961 in which the parties differ greatly. Applicant has included \$833 as approximately one-third of the cost of repairing the lower reservoir. The order herein will require the retirement from service of this reservoir and hence the staff estimate of \$350 for the maintenance of the reservoirs (including a new storage tank) is reasonable and will be used. The staff disallowed \$2,940 of the applicant's estimated \$7,600 cost of maintaining mains, and estimated this cost at \$4,660. This latter figure is an increase of approximately \$600 over the recorded cost of maintaining mains in 1960; moreover, the record shows that applicant has done little to maintain the lines except to repair major leaks. The staff estimate is reasonable and will be used.

The sum of \$18,051 will be allowed as operation and maintenance expenses for the test year 1961. We find that said allowance is reasonable.

Applicant's estimates of direct administrative and general expenses (\$1,891) are reasonable except for the item of regulatory Commission expense (Account No. 797, \$1,230). Applicant included \$400 as the last portion of a \$2,000 allowance on a prior rate proceeding. It estimated the cost of the application herein at \$1,150 and amortized this figure over a period of five years.

It also estimated the cost of defending the investigation hearing at \$600, and included this total sum in the 1961 cost estimate. Applicant's proposal for regulatory expense totaled \$1,230. The sum of \$1,750 is a reasonable allowance for the costs of the application and the Big Bear phase of the investigation. However, the cost of these proceedings and the balance of the prior proceeding will be totaled and amortized at the rate of \$430 per year.

Applicant secured an engineering report at the request of the State Board of Health at a total cost of \$550 (Account No.798-Outside Services). This should also be amortized and applicant will be allowed \$110 per year on the cost thereof. Applicant will be allowed a total of \$1,018 as direct administrative and general expenses.

Applicant allocates the common expenses of the various systems on a four-factor basis, which method has been approved by this Commission. In 1960 applicant allocated 6.91 per cent of its total general expenses to the Big Bear System. In estimating its 1961 costs herein, it has increased the allocation to 7.44 per cent. The staff allocated 6.66 per cent in 1960 and recommended the same percentage for 1961. This latter percentage is reasonable and will be used herein. On this basis applicant's allocated administrative and general expenses for 1961 will be \$5,160. The total administrative and general expenses allowed will be \$6,178.

For depreciation purposes, applicant includes in its plant all of its transmission and distribution mains. The Commission has heretofore disallowed 70 per cent of these facilities as excessive; this percentage continues to be reasonable and will be followed herein. The order herein will require applicant to

install a new storage tank of approximately 210,000 gallons capacity, the cost of which has been estimated by the applicant to be \$12,578 (Exhibit Big Bear No. 2). A 50-year life is reasonable for this tank, so that approximately \$300 per year would be added to applicant's depreciation expense. The staff estimated depreciation expenses for 1961 at \$3,830. Depreciation expense of \$4,130 for the test year 1961 is reasonable.

Applicant estimated taxes on the total plant. The staff deducted the taxes on 70 per cent of the transmission and distribution mains, to reflect overbuilding. This deduction is in accordance with the past practice of this Commission and is reasonable. The total of taxes other than on income (and after deducting 70 per cent of taxes on mains) should therefore be calculated at \$1,966 for the test year 1961; this sum is reasonable and will be used herein.

Income tax expense of \$3,025 will be recognized for the purposes of this decision. This figure includes \$320 for state corporation franchise taxes and \$2,705 for federal income taxes after an allocated credit of \$220 on the federal surtax.

Applicant's estimated rate base is \$169,861. This figure includes excess or overbuilt mains consistently excluded by the Commission heretofore. The staff estimated a rate base in which the only reservoir recognized was the upper reservoir and which classified as excess 70 per cent of the weighted average main account balance of \$141,211. The staff's estimates are reasonable, are consistent with past practices of the Commission and consider the fact that mains designed to serve approximately 8,000 consumers are in place whereas the actual number of services and

connections is something less than 700. The order herein will require applicant to install a new storage tank of approximately 210,000 gallons capacity costing \$12,578, which, together with the service line, tank site and necessary facilities, is estimated by applicant to cost \$28,000 (Exhibit Big Bear No. 2). Applicant has one usable reservoir, which could be retained, but when the new tank is installed, it is probable that this existing reservoir will be withdrawn from service. Applicant's rate base for the purposes of this decision is hereby found to be \$140,000. This figure is reasonable and will allow applicant to earn a return on approximately \$17,000 in anticipated net additions to its plant, over and above the new storage tank and its connections.

The following is hereby found to be a fair appraisal of applicant's operations for the test year 1961 at its proposed rates:

<u>Operating Revenues</u>	\$ 38,436
<u>Expenses:</u>	
Operating and maintenance expenses	18,051
Taxes other than Income	1,966
Depreciation	4,130
Administrative and general expenses	6,178
Income taxes	3,025
Total	\$ 33,350
Net Revenues	5,086
Depreciated Rate Base	140,000
Rate of Return	3.63%

Applicant is entitled to some rate relief. In addition, the record shows that the system must be improved in order that the State Department of Public Health permit it to remain in operation. The lower reservoir must either be repaired or taken out of operation; in fact, the continued use of this reservoir, even if repaired, would perpetuate poor service and low pressure to a large percentage of the consumers.

Case No. 6387

This matter is a continuing investigation into the practices and service of applicant. The record shows that the Big Bear System is not in satisfactory condition and that the State Department of Public Health is requiring reservoir repairs. A group of protestants presented extensive evidence relative to the system.

The Commission's staff investigated this system. Its report (Exhibit No. 1, Big Bear) includes, among other things, the following:

1. The wells and pumps and the upper reservoir appear to be adequate and in a well-maintained condition.

2. Rehabilitation of the lower reservoir has been directed by the State Department of Public Health and it should be restored to good condition. (The staff, during the hearing, modified its opinion of this reservoir, as appears below).

3. The transmission and distribution mains are mostly of poor quality material.

4. To alleviate water shortage during days of seasonal peak consumption, such as Labor Day and Independence Day, a tank should be constructed south of Big Bear Park Tract of the Sugarloaf area at a suitable elevation and location. An 8-inch diameter main should be constructed to interconnect this tank with the system at a point near the intersection of Kern Avenue and Mahogany Avenue.

A staff engineer, in his testimony, modified the recommendations of the staff report. At the hearing he testified that a 420,000-gallon storage tank should be installed southwest of the

service area at an elevation approximately 60 feet higher than the highest point therein; and that it should be connection to the system with the 8-inch line as recommended. He estimated that the cost of these items would be somewhat less than the total cost of \$39,000 estimated by applicant (Exhibit No. 2, Big Bear). This tank would replace the lower reservoir and also the upper reservoir.

Applicant took the position during the proceedings that a 420,000 gallon storage tank was of larger capacity than necessary, but the company would be willing to install a lesser capacity tank of 210,000 gallons. In view of the almost static customer growth in the service area, as well as other service improvements which applicant has been ordered to make in its other water systems, we consider the additional 210,000 gallons of storage to be adequate at this time.

Applicant states that it is making, has made, or will make, 13 repairs or improvements to its lines. Most of these repairs and proposed repairs are in the southeast portion of the original service area.

Applicant's General Report (Exhibit No. 7) indicates that the company in its over-all operations does make some profit. The record herein also shows that the Big Bear System is inadequate and poorly maintained. Although the Commission will authorize increases in the rates as requested, they will be conditioned to take effect only if applicant: (1) has removed from service the lower reservoir, (2) has installed a storage tank of not less than 210,000 gallons capacity at or about the site recommended by the Commission's engineer, (3) has connected such new tank by an 8-inch line to the system, and (4) has completed all replacement work listed on pages 34 and 35 of its Exhibit No. 1, Results of Operation Report.

From all of the evidence adduced in these matters we now find that the proposed increases in rates and charges, as hereinbefore described and as authorized herein, are justified, and that the present rates and charges insofar as they differ from those herein prescribed will become unjust and unreasonable when applicant has complied with the four conditions set forth in the immediately preceding sentence of this opinion. We further find that the public interest requires that Pacific Water Co. continue to rehabilitate its water system and to report to the Commission the progress of such work.

O R D E R

The application of Pacific Water Co. for authority to increase its rates in its Big Bear Water System and the Commission's investigation into the system having been consolidated for hearing, hearings thereon having been held, evidence having been adduced, and the Commission having considered said evidence,

IT IS ORDERED that:

1. Pacific Water Co. shall, within one hundred twenty days after the effective date hereof, (a) install and place in operation a storage tank of not less than 210,000 gallons capacity at an elevation of approximately 7,280 feet in the vicinity of its Big Bear Park Tract No. 1 service area, (b) shall connect said tank to its system with an 8-inch or larger connection at or near the intersection of Mahogany Road and Kern Avenue, (c) complete the work listed on pages 34 and 35 of applicant's Exhibit No. 1 in Application No. 43561, and (d) inform the Commission, in writing, of the completion of each of the foregoing projects, within ten days thereafter.

2. Concurrently with the placing in operation of said 210,000 gallon or larger tank applicant shall remove from

service its 60,000-gallon lower reservoir and shall inform the Commission, in writing, that this has been accomplished, within ten days thereafter.

3. Applicant is authorized to file with this Commission, in conformity with General Order No. 96-A, after compliance with paragraphs 1 and 2 above as evidenced by the issuance by the Commission of a supplemental order to that effect, the schedule of rates attached to this order as Appendix A. Said supplemental order will provide when said rates shall become effective.

4. Within forty-five days after the effective date of this order, applicant shall file with this Commission, in conformity with General Order No. 96-A, and in a manner acceptable to the Commission, revised rules governing customer relations, and copies of printed forms normally used in connection with customers' services. Such rules, and forms shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

5. 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 400 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.

6. Beginning with the year 1962, applicant shall use the depreciation rates shown in Table 9-A of Exhibit No. 11 of the instant proceeding, and shall review its depreciation rates for each plant account annually, using the straight line remaining life method. Results of these reviews shall be submitted to the Commission.

7. Applicant shall prepare and submit in writing to this Commission for approval, not later than June 30, 1962, a plan for the continuing improvement of service throughout its Big Bear service area, giving due consideration to customer density. Said plan shall specify details, dates and estimated costs of proposed improvements, including improvements in the distribution system. Following the filing of such plan, the Commission, by supplemental order, will direct applicant to effectuate such improvements in service as may be appropriate and will specify the methods by which said improvements shall be carried out.

8. Applicant shall adjust its books of account to reflect the cost of removal of all facilities retired.

The Secretary of the Commission shall cause a copy of this decision to be served on Pacific Water Co. The effective date of this decision shall be the 20th day after such service.

Dated at San Francisco, California, this 1st day of May, 1962.

Robert A. Ray
President

S. L. Fox

George A. Grover

Fredrick B. Hellehoff
Commissioners

Discent-
Arthur E. Mitchell

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I dissent.

The rates of the Big Bear Water System were increased 100% in February, 1958 (Decision No. 56261). It is apparent from the record in this present Application No. 43561 and Order of Investigation, Case No. 6387, that subsequent to the last rate increase, the facilities and plant of this utility have not been improved to even a minimum standard necessary to supply reasonable service to its consumers.

While I recognize there is a need for some additional revenue by this utility, under the circumstances the proposed 100% increase in rates is not justified.

Also, in view of the numerous complaints from consumers, this utility should be required to file with the Commission at frequent intervals, reports of complaints received from consumers and its action regarding same.

The order should direct the applicant to obtain a certificate from the State Department of Health within six (6) months of the effective date. It is understood the applicant has filed for a temporary permit and the Commission should be kept advised whatever action is taken thereon by the State Department of Public Health.


Peter E. Mitchell
Commissioner

APPENDIX A
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Schedule No. BB-1A

(T)

Big Bear Tariff Area

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The areas known as Big Bear Woodlands Tract, Big Bear Lakewood Tract, (T)
Big Bear Pines, Big Bear Pinewoods, Big Bear Park Annex, Big Bear Park, |
Big Bear Highlands and Camp Fontenelle, San Bernardino County. (T)

RATES

Per Meter
Per Year

Annual Quantity Rates:

First 10,000 cu. ft. or less	\$ 96.00	(I)
Next 12,000 cu. ft., per 100 cu. ft.80	
Next 18,000 cu. ft., per 100 cu. ft.60	
Next 40,000 cu. ft., per 100 cu. ft.40	
Over 80,000 cu. ft., per 100 cu. ft.30	

Annual Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 96.00	
For 3/4-inch meter	114.00	
For 1-inch meter	138.00	
For 1 1/2-inch meter	192.00	
For 2-inch meter	240.00	

The Annual Minimum Charge will entitle the customer to an annual quantity of water which that minimum charge will purchase at the Annual Quantity Rates.

(continued)

Schedule No. BB-1A

Big Bear Tariff Area

ANNUAL GENERAL METERED SERVICE
(continued)

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing March 1, and is due in advance. (T)
2. Water used in excess of the annual allowance under the annual minimum charge may be billed quarterly or semiannually at the option of the utility.
3. For initial service connected after March 1, the annual minimum charge will be prorated at the first March 1 billing following commencement of such initial service. (T)

APPENDIX A
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Schedule No. BB-2AR (T)

Big Bear Tariff Area

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The areas known as Big Bear Woodlands Tract, Big Bear Lakewood Tract, Big Bear Pines, Big Bear Pinewoods, Big Bear Park Annex, Big Bear Park, Big Bear Highlands and Camp Fontenelle, San Bernardino County. (T)
(T)

RATE

Per Service Connection
Per Year

For each single-family residential unit including premises \$96 (I)

SPECIAL CONDITIONS

1. The above annual flat rate applies to service connections not larger than one inch in diameter. (T)
2. All service not covered by the above classification will be furnished only on a metered basis.
3. For service covered by the above classification, if either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. BB-1A, Annual General Metered Service.
4. The annual flat rate charge applies to service during the 12-month period commencing March 1, and is due in advance.
5. For initial service connected after March 1, the annual flat rate charge will be prorated at the first March 1 billing following commencement of such initial service. (T)