

54448

ORIGINAL

Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 MERLE R. HENDRIX and LOUIS J. SAFRANEK,)
 JR., dba, OUTINGDALE WATER COMPANY for)
 authority to increase rates for water)
 service and for the establishment of)
 a schedule of meter rates.)

Application No. 44406
 (Filed May 3, 1962)

Louis J. Safraneck, Jr., and Thornton Davis,
 for applicants.
Edward W. Keller, for himself, and Lachlan S.
Heath, for Outingdale Improvement Club,
 protestants.
Herbert O. Walters and Norris Ralph Pezzaglia,
 interested parties.
John D. Reader, for the Commission staff.

O P I N I O N

After due notice, public hearing in this matter was held before Examiner F. Everett Emerson on August 2, 1962, at Placerville. Approximately 30 persons attended the hearing. Oral testimony was presented by eight witnesses and six exhibits were placed in evidence. In addition, the record contains, by reference, the annual reports of applicants for the past five years, as well as this Commission's Decision No. 53572 issued in Application No. 37847 on August 7, 1956. The matter is submitted and is ready for decision.

Applicants presently provide public utility water service to an area known as Outingdale, El Dorado County, in which they supply water to approximately 86 customers, about 25 of whom are year-round residents. The area is essentially one devoted to summer homes with vacation-period and week-end occupancies predominating. Applicants presently charge a flat rate of \$30 per year for each

residence, including surrounding premises, as authorized by this Commission in 1956. Applicants seek authority to increase such flat rate charge to \$78 per year and to establish a rate for metered water service which, on a monthly basis, would provide 1,000 cubic feet of water for a charge of \$6.25 per month with a charge for additional water at the rate of 75¢ per 100 cubic feet. Assuming an average usage of 1,200 cubic feet per month, the proposed charges would result in an average monthly bill of \$7.75 for metered service.

An appraisal of applicants' system was made by the Commission staff in 1945 and, with net additions up to December 31, 1955, was specifically adopted by this Commission's Decision No. 53572 in 1956. In the present proceeding, the staff, after investigation of all of applicants' records, has brought such historical cost information up to the date of December 31, 1961. Applicants' utility plant accounts are thus shown to be as follows:

Utility Plant, By Accounts

| <u>Account No.</u> | | <u>1945 Appraisal</u> | <u>Net Additions</u> | <u>Dec. 31, 1961 Total</u> |
|------------------------|-----------------------------|---------------------------|--------------------------|--------------------------------|
| 301 | Intangible Capital | \$ 100 | \$ - | \$ 100.00 |
| 306 | Land | 250 | - | 250.00 |
| 312 | Diversion Dam | 4,200 | - | 4,200.00 |
| 324 | Pumping Equipment | 175 | 534.00 | 709.00 |
| 331 | Water Treatment | - | 421.72 | 421.72 |
| 342 | Reservoir | 1,350 | - | 1,350.00 |
| 343 | Mains | 4,100 | 1,963.85 | 6,063.85 |
| 373 | Transportation Equipment | - | 698.54 | 698.54 |
| | Total Plant | \$10,175 | \$3,618.11 | \$13,793.11 |

The depreciation reserve properly associated with such total plant amount, as of December 31, 1961, is \$7,508.58, thus producing a depreciated or net plant balance of \$6,284.53 as of the same date.

The evidence shows that at no time has either of the applicants received any monies from the system which might be classified as a wage or salary payment, even though their labors are regularly devoted to its care and upkeep. As a result, applicants' recorded operating expenses have been minimal. In the last five years, net additions to plant have totaled approximately \$350 more than the depreciation charges have produced. There has been no true "profit" for the system in any of the past six years.

Experience has shown that no public utility operation can long endure under such circumstances. While it is true that the law does not guarantee a profit but extends only the privilege of an opportunity to make reasonable earnings, it is equally true that the law does not contemplate that a utility will be forced to operate at a loss. Operation of the system requires that certain management functions and physical labor be performed. Applicants are entitled to a reasonable remuneration for the services performed in meeting the demands of their customers, plus a fair return on their investment in the properties.

In view of the evidence respecting applicants' operations, the Commission finds that the fair and reasonable operating expenses for this system total \$3,980 annually, before any provision is made for the payment of taxes on income. Under applicants' existing rates for water service, annual revenues received from 86 customers cannot exceed \$2,580. Applicants are operating at a loss.

As above mentioned, applicants presently provide only flat rate service. They seek authority to install meters. The financial situation of the utility is not such as will permit full metering, however, and applicants propose to install only 10 meters during first-year operations under a meter tariff. Metering in general, and the proposed 10 meters in particular, are strenuously opposed by applicants' customers. They fear discriminatory and retaliatory actions will result from partial metering.

The first real disadvantage of flat rate service is that it may encourage waste of water and thereby increase the expenses of pumping and of providing storage. Secondly, a flat rate may lead to inequities among consumers, because, however careful a prudent user may be, he has no rate advantage over the user who carelessly wastes water. The natural tendency for a utility operator is first to place meters upon those connections where flagrant or obvious waste of water has been observed. We find no fault in the practice. It should quickly control the wastage which results from week-end users who on departing the area to return to their permanent residences leave faucets open and water running to no useful purpose, as the evidence shows has occurred on this system.

Applicants' customers complain of "harassment", "muddy" water, chlorination and occasional low pressures. In their view, policing or patrolling of the system to prevent water wastage and words of caution respecting wasteful water usage constitute harassment by the utility. While it may be that some overzealous attention has occurred, where a system is operating at a loss, it is understandable that the owners endeavor to keep losses to a minimum.

With respect to a solution of the problem of dirty water, the Commission staff, apparently with the concurrence of the El

Dorado County Health Department, has recommended that an infiltration gallery be installed at the water supply intake. Applicants raised no objection to such recommendation. The necessary installation will reasonably require a capital expenditure of approximately \$450. The pressure problems can be alleviated, according to the staff witness, by installation of a booster pump and small pressure system. The reasonable capital cost of this installation will be approximately \$400. Applicants chlorinate the water to protect the health of their patrons and have recently acquired testing equipment by which the chlorine residuals may be closely determined. Daily testing is now being done and should provide a closer control over the chlorinating process.

Applicants' system has an adequate source of water supply. It employs one pump for lifting the water from the source to the distribution mains. The Commission staff has recommended that a dual pumping system be installed so that in case of pump trouble a second, or stand-by, pump could supply the system. Such an installation would entail, as a minimum, a capital cost of \$1,035. The evidence does not indicate that there have been any interruptions in service as the result of pump failure. The second pump, as recommended by the staff, would increase neither the volume of water delivered into the system nor system pressures. Under such circumstances, it would appear that the second pump is not essential at this time. Its installation would place an additional financial burden on both applicants and their customers, a burden which would not be reasonable at this stage of area and system development.

In view of the evidence, the more important aspects of which have been discussed above, the Commission makes the following findings:

1. Applicants are in need of and entitled to increased revenues.

2. It is fair and reasonable to require that meters be installed and a tariff established for metered service. Further, it is fair and reasonable to require that no fewer than 20 meters shall be installed in the next 12-month period and that the system be fully metered within four years.

3. The public interest requires that applicants install a suitable infiltration gallery at the source of supply and a suitable pressure system.

4. Increased rates and charges should be authorized so as to produce annual gross revenues of approximately \$4,810. Such revenues will produce earnings which are fair and reasonable when related to applicants' future operations, as illustrated by the following tabulation:

| <u>Results of Operations</u> <u>Normal 12-Month Period, 1962-1963</u> <u>at Authorized Rates</u> | |
|--|----------------|
| <u>Item</u> | <u>Amount</u> |
| Gross Operating Revenues | \$4,810 |
| Operating Expenses: | |
| Before Taxes on Income | 3,920 |
| Taxes on Income | 175 |
| Total Operating Expenses | <u>\$4,155</u> |
| Net Revenue | 655 |
| Rate Base: | |
| Net Plant as of December 31, 1961 | 6,285 |
| Infiltration Gallery | 450 |
| Pressure Booster System | 400 |
| Installation of 20 Meters | 1,100 |
| One New Service Connection | 15 |
| Working Cash, Materials and Supplies | 400 |
| Less 12-Month Depreciation Accrual | <u>(465)</u> |
| Depreciated Rate Base | <u>\$8,185</u> |
| Rate of Return | 8% |

5. The increases in rates and charges authorized herein are justified and existing rates and charges, insofar as they differ from those authorized herein, are for the future unjust and unreasonable.

The evidence includes certain recommendations of the Commission staff respecting a health permit, applicants' records,

depreciation accounting methods, the filing of up-to-date maps and the revision of utility rules so as to reflect present-day practices. The order herein will implement such recommendations, which we hereby find to be reasonable.

Applicants are placed on notice that they, as well as their customers, are bound by and must comply with all provisions of their filed tariffs and, in particular, that they may not require customers to furnish, install or maintain the service pipe or connections from the utility's mains to the customers' property lines. Further, applicants are placed on notice that they must comply with the provisions of this Commission's General Order No. 103 and, in particular, that they must establish a record of complaints and the disposition thereof as contemplated by said General Order.

O R D E R

Based upon the evidence and the findings set forth in the foregoing opinion,

IT IS ORDERED as follows:

1. Applicants are authorized to file with this Commission, after the effective date of this order and in conformity with General Order No. 96-A, the schedules of rates attached to this order as Appendix A and on not less than five days' notice to the Commission and to the public to make such rates effective for all service rendered on and after January 1, 1963.

2. By not later than January 31, 1963, applicants shall install a booster unit rated at approximately 25 gpm and capable of increasing the pressure in the high area south of Vacation Boulevard to at least the minimum set forth in General Order No. 103, and shall inform the Commission, in writing, of the completion of this installation within ten days thereafter.

3. By not later than January 31, 1963, applicants shall install an infiltration gallery at the intake from the river, said gallery to be in accordance with the requirements of the Health Department of El Dorado County, and within ten days thereafter shall inform the Commission, in writing, of the completion and proper functioning of said installation.

4. Applicants shall file with this Commission, within forty-five days after the effective date of this order and in conformity with General Order No. 96-A, revised rules governing service to customers, a revised tariff service area map, and copies of 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.

5. Applicants shall file with the Commission within sixty days after the effective date of this order, four copies of a comprehensive map, drawn to an indicated scale of not more 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 applicants.

6. Beginning with the year 1962, applicants shall determine depreciation accruals by multiplying the depreciable utility plant by a rate of 3.0 percent. This rate shall be used until review indicates that it should be revised. Applicants shall review the depreciation rate, using the straight-line remaining life method, whenever substantial 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 the Commission.

7. On or before January 1, 1963, applicants shall institute a program for the monthly testing of water quality and shall apply to the appropriate public health agency for a water supply permit. Applicants shall inform the Commission, in writing, of such application within ten days thereafter.

8. On or before January 1, 1963, applicants are authorized and directed to place on their books of account amounts for utility plant and depreciation reserve as of December 31, 1961 substantially as set forth in the foregoing opinion, after consultation with the staff of the Commission's Finance and Accounts Division.

9a. Applicants shall install no fewer than 20 meters on customers' services within one year after the effective date of this order and shall report to the Commission, in writing, that this has been accomplished, within ten days thereafter.

b. Applicants shall institute a program to provide for complete metering of all customers' services within not less than four years after the effective date of this order and shall report to the Commission, in writing, within ten days after the end of each yearly period following the effective date hereof,

as to the number of meters installed during such yearly period and the number of services remaining to be metered.

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

Dated at San Francisco, California, this 23rd day of OCTOBER, 1962.

George G. Crover
President
John J. ...
...
...
Fredrick B. Halaloff
Commissioners

APPENDIX A
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Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Outingdale and vicinity, El Dorado County.

RATES

| | <u>Per Meter</u> <u>Per Year</u> |
|--|-------------------------------------|
| Annual Minimum Charge: | |
| For 5/8 x 3/4-inch meter (including 500 cu. ft. per month) | \$45.00 |
| Quantity Rate: | |
| For all usage over the allowance in the above minimum charge, per 100 cubic feet | 0.45 |

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1 and is due in advance.
2. 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. 2AR

(T)

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Outingdale and vicinity, El Dorado County.

(T)

RATE

Per Service Connection
Per Year

For a single-family residential
unit, including premises

\$53.00

(I)

SPECIAL CONDITIONS

1. The annual residential flat rate charge is payable in advance on or before January 1 of each year.

(T)

(T)

2. The above flat rate applies to service connections not larger than one inch in diameter.

(N)

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

4. 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. 1A, Annual General Metered Service. When such a meter is so installed, metered service must be continued for at least 12 months before service will again be furnished at flat rates.

(N)