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ORIGINAL

Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of JOHN J. and IDA L. BOWER, husband and wife, dba "NORTH GUALALA WATER WORKS", for an order, under Section 454 of the Public Utilities Code, authorizing an increase in water rates.

Application No. 44557
(Filed June 18, 1962)

John E. Callouette, for applicant.
John D. Reader, for the Commission staff.

O P I N I O N

After notice in accordance with the Commission's procedural rules, a consolidated hearing was held before Examiner Coffey at Gualala on November 28, 1962, on this application and on the complaint of John A. Seaman and Wareham C. Seaman vs. North Gualala Water Works (Case No. 7373) relating to the extension of water service. This application was submitted for decision on November 29, 1962, and the complaint was submitted for decision on the receipt of briefs on March 28, 1963. The decision in the complaint proceeding will issue separately.

Approximately 25 members of the public attended the hearing, six of whom testified in opposition to the rate increase and complained of water service. The staff report (Exhibit 9) shows that 12 consumers by letters and 78 consumers by petition protested the rate increase and complained of such service conditions as dirty water, poor pressure, air in lines, and impure water.

System and Service Area

Applicants serve the unincorporated community of Gualala and adjacent territory on the Mendocino County coast. The water

supply is obtained from three surface water diversion points. For approximately 160 customers there are 44,660 feet of transmission mains, 32 tanks and reservoirs with an approximate total capacity of 720,000 gallons, and 10 pumping units. The area served is mountainous with a difference in elevation of approximately 800 feet between the lowest and highest points of service. Applicants planned to meter all customers, except one, by March, 1963.

Applicants' Request

Applicants' tariffs presently provide for general metered and flat rate service. The following table summarized applicants' present and proposed rates for metered service:

PRESENT AND PROPOSED RATES

Meter Rates

		<u>Per Meter Per Month</u>	
		<u>Present</u>	<u>Proposed</u>
<u>Quantity Rates:</u>			
First	400 cu.ft. or less.....	\$ 2.75	\$ 5.35
Next	200 cu.ft., per 100 cu.ft.	-	.82
Next	900 cu.ft., per 100 cu.ft.	.40	.82
Next	1,500 cu.ft., per 100 cu.ft.	.30	.68
Over	3,000 cu.ft., per 100 cu.ft.	.20	.45
<u>Minimum Charge:</u>			
For	5/8 x 3/4-inch meter	\$ 2.75	\$ 5.35
For	3/4-inch meter	3.50	6.80
For	1-inch meter	5.50	11.00
For	1½-inch meter	7.00	13.50
For	2-inch meter	10.00	19.00

Applicants propose to discontinue all service under their flat rate service schedule except to the Hollow Tree Lumber Company, the charge to which will be \$266.66 per month. Presently applicants are charging this lumber mill an unauthorized flat rate of \$125 per month. Applicants propose to supply the Hollow Tree Lumber Company at a flat rate because it is served through one large connection which cannot be metered economically and because the mill is expected to close by July, 1963.

The staff recommended that the first quantity block be 500 cubic feet.

The median sale of 545 cubic feet of water presently costs \$2.75 per month and would cost under proposed rates \$6.54, an increase of 138 percent. The bill for the average sale of 677 cubic feet of water would increase from \$3.06 to \$7.62, an increase of 149 percent. The average monthly revenue per residential customer under present rates is \$3.84 and under proposed rates is \$8.39, an increase of 131 percent.

Results of Operation

The following are the estimates, from staff Exhibit 9, of results of operation made by the applicants and the staff under both present and proposed rates.

Summary of Earnings
Year 1962 Estimated

Item	Present Rates		Proposed Rates	
	Applicants	Staff	Applicants	Staff
Operating Revenues	\$8,910.00	\$ 9,475	\$20,569.14	\$20,885
<u>Deductions</u>				
M&O Expenses	8,880.00	7,700	8,880.00	7,700
Depreciation	3,704.00	2,790	3,704.00	2,790
Taxes Other Than on Income	2,520.00	1,690	2,520.00	1,690
Income Taxes	-	-	1,140.00	1,955
Total Deductions	15,104.00	12,180	16,244.00	14,135
Net Revenue	(6,194.00)	(2,705)	4,325.14	6,750
Avg. Depr. Rate Base	106,784.55	63,200	106,784.55	63,200
Rate of Return	Loss	Loss	4.05%	10.7%

(Red Figure)

At present rates, both staff and applicants estimate the utility will operate at a loss. We find applicants are in need of increased revenues.

The staff's estimates of revenues are higher than those made by applicants since the staff made adjustments for deviations

from filed tariffs. Both the applicants' and staff's estimates include revenue from the mill which is to be discontinued. We find the staff's method of estimating revenue reasonable, but the adopted results will reflect the cessation of mill operations.

The applicants' estimate of expenses included \$1,208 for items which are properly chargeable to plant accounts. The staff's estimate included \$300 for supply, insurance and water testing expenses inadvertently not considered by applicants. The staff's estimate included lesser amounts than included in the applicants' estimate for transmission and distribution materials, annual regulatory commission expense and rent, and larger amounts than those of the applicants for customer accounting and truck expense. We find the staff estimates of operating expenses reasonable, but the adopted results will reflect the cessation of mill operations.

The staff testified that from field inspection the system appeared to be overbuilt. Applicants are also owners of extensive property and subdividers in the utility service area. Many mains have been extended and new back-up facilities have been installed to provide water in applicants' new subdivisions. The cost of these new plant installations has been added to plant without the subdivider's advance required by applicants' filed main extension rule. The staff deducted \$28,000 from utility plant as an adjustment for overbuilt plant, relating the item to excessive tank storage and \$19,000 for uncollected subdivider advances.

Applicants' witness testified that the tank storage was needed to provide clear water from storage at those times when the supply streams are roiled and turbid. This system is located in an area subject to frequent and prolonged rain storms. The present tank storage provides approximately 1,000 gallons of capacity per

customer, sufficient for two to four days of demand. To provide for current needs applicants propose to add an additional 100,000 gallons of tank storage, to cost approximately \$50,000. Applicants' solution of the turbid water problem appears inadequate and too costly. Applicants will be required to give further consideration to an economic solution of the turbid water problem. We find the staff adjustment for overbuilt plant reasonable.

Applicants' rate base includes adjustments of recorded plant for alleged omissions. This record does not support applicants' allegations. The staff's rate base included amounts for future improvements and excluded unrecorded retirements and donations for eight meters, in addition to items previously discussed. We find the staff's rate base reasonable.

The foregoing discussion accounts for the differences between the estimates of depreciation and tax deductions. We find the staff's estimates of depreciation and tax deductions reasonable.

Service

Public witnesses testified relative to sediment in water and low pressure. One witness thought he had paid \$30 to applicants as a meter installation charge. Applicants, by late-filed Exhibit 11, reported on its investigation of the complaints made at the hearing on sediment and pressure. The report stated all complaints were from the same area and recommended raising the minimum hydro-pneumatic tank pressure settings and instituting a routine program of flushing the hydro-pneumatic tank and mains serving the area from which the complaints originated. The Commission will not order applicants to put their own service recommendations into effect but expects applicants to act upon the recommendations in Exhibit 11 and to take such other steps as may be required to render reasonable service.

The staff witness testified that applicants do not maintain a record of customer complaints and the disposition thereof, that applicants should be required to institute a program for the monthly testing of water quality, that letters, interviews and applicants' records indicated that at least eight widely separated customers had been required to pay \$30 each for the installation of meters, that applicants should be required to have funds for main extensions advanced from the land development company they control in the same manner as required of other land developers, and that some customers have indicated that they have advanced funds for the extension of mains and have not received a refund.

One of applicants testified that a number of \$30 charges had been made on a prorated basis for a line extension which extended over the free footage allowance and conceded that the books "could show" the charges as meter installations. This record does not conclusively demonstrate that applicants have improperly collected charges for service connections to existing mains, or that applicants have not properly refunded main extension advances, but it appears appropriate that applicants review their interpretations of their filed tariffs and report to this Commission the circumstances of collecting said \$30 charges. This record does demonstrate that applicants have deviated from their filed tariffs by making charges for water service that have not been authorized by this Commission.

We find that applicants have not complied with paragraph I.8 of this Commission's General Order No. 103 in that they have not established and maintained a record of customer complaints and the disposition thereof. We find that it is reasonable for applicants to be required to institute a program for the monthly testing of water quality.

Applicants are placed on notice that they must comply with all provisions of their filed tariffs and shall not make any charges for service that deviate therefrom. Applicants would be well advised to review Section 734 of the Public Utilities Code regarding the collection of reparations from public utilities and to review Sections 2101 through 2113 of said Code which set forth penalties for the failure or neglect to comply with any order, decision, decree, rule, direction, demand or requirement of this Commission.

Applicants indicated they desired to file a service area map showing their service area to include all or part of 17 sections. Applicants' Exhibit 7 shows the "One Year Projected Service Area" to be approximately twice the existing service area of approximately two square miles. The order will provide that applicants shall file a revised tariff service area map. Said map is to be limited to applicants' present service area. Thereafter applicants should comply with paragraph I.E. of General Order No. 96-A of this Commission before extending into territory contiguous with its then existing service area.

Adopted Results

For the purposes of this proceeding the Commission finds that the estimates as set forth below of operating revenues under the rates and charges herein authorized, expenses, including taxes and depreciation, and the rate base for the year 1962 reasonably represent the results of applicants' operations with and without service to the Hollow Tree Lumber Company:

ADOPTED SUMMARY OF EARNINGS

	<u>Mill Operating</u>	<u>Mill Closed</u>
Operating Revenues	\$ 17,980	\$ 14,780
<u>Deductions</u>		
M&O Expenses	7,700	7,025
Depreciation	2,790	2,790
Taxes Other Than on Income	1,690	1,690
Income Taxes	<u>1,385</u>	<u>710</u>
Total Deductions	13,565	12,215
Net Revenue	4,415	2,565
Avg. Depr. Rate Base	63,200	63,200
Rate of Return	7%	4.06%

Applicants' requested rates, under their showing, would have resulted in a rate of return of 4.05 percent. However, one of applicants testified that he would not consider this rate of return to be fair and reasonable if it were applied to a rate base lower than that presented by applicants.

We find a rate of return of 7 percent applied to the 1962 test year rate base to be fair and reasonable if the Hollow Tree Lumber Company continues its operations at Gualala, and a rate of return of 4.06 percent applied to the 1962 test year rate base to be fair and reasonable if said operations are discontinued. Applicants may not reasonably expect to receive a full return on their investment until the subdivisions are more fully developed and occupied, nor may applicants reasonably expect their remaining customers to supply revenue deficiencies and a return on surplus plant resulting from the loss of a single large customer.

We find that the increases in rates and charges authorized herein are justified, that the rates and charges authorized herein are reasonable, and that the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

The rates authorized herein will result in an increase in annual gross revenue of \$8,505 if the Hollow Tree Lumber Company continues operation at Gualala and of \$5,305 if the mill does not continue operations, increases of 90 percent and 56 percent, respectively. Under either of the foregoing eventualities the average monthly revenue per residential customer will increase from \$3.84 to \$7.14, an increase of 86 percent.

O R D E R

IT IS ORDERED that:

1. Applicants, John J. Bower and Ida L. Bower, 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, upon not less than five days' notice to the Commission and to the public, to make such rates effective for service rendered on and after August 1, 1963. ✓
2. Within forty-five days after the effective date of this order, applicants shall file with the Commission, in conformity with General Order No. 96-A, and in a manner acceptable to the Commission, revised rules governing service to customers, a revised tariff service area map delineating their present service area, and copies of printed forms normally used in connection with customers' services. Such rules, tariff service area map and forms shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.
3. Within sixty days after the effective date of this order, applicants shall file with the Commission 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.

4. Beginning with the year 1962, applicants shall determine depreciation expense by multiplying the depreciable utility plant by a rate of 3 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 thirty days after the effective date of this order, applicants shall establish and maintain a record of informal complaints and the disposition thereof, pursuant to the provisions of General Order No. 103, and shall inform the Commission, in writing, that such record has been established, within ten days thereafter.

6. Within thirty days after the effective date of this order, applicants shall institute a program for the monthly testing of water quality in accordance with the requirements of the appropriate state and county public health agencies. Applicants shall inform the Commission, in writing, of such testing within ten days thereafter.

7. Within sixty days after the effective date of this order, applicants shall review their interpretation and application of their filed tariffs and report to the Commission the complete justification of each \$30 charge made for the installation of a meter or service, or for a prorated line extension, including the following:

- (a) A map delineating the mains associated with said charges and the location of customers from whom said charges were collected.
- (b) The individual charge for meter or service installation, or for line extension, collected from each of the four customers nearest a customer from whom said \$30 charge was collected.

8. Applicants shall enter into contracts or agreements for main extensions only under the provisions of their filed main extension rule, whether or not the subdividers or land developers involved may be wholly or partly under the control of applicants. All contracts or agreements must be submitted to the Commission for approval, in accordance with General Order No. 96-A, unless the form of such contracts or agreements is on file in the utility's effective tariffs.

9. Within ninety days after the effective date of this order, applicants shall file with the Commission a report by a registered professional engineer in the field of civil engineering on the engineering and economic possibility of alternate plans for reducing the water turbidity to acceptable levels, including the installation of shallow wells and/or the utilization of existing water tanks as gravity filters.

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

Dated at San Francisco, California this 2nd day of July, 1963.

George H. Hoover
President

William E. [unclear]

Arthur W. [unclear]

Fredrick B. Hallock

Sullivan W. Bernard
Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Gualala and vicinity, located approximately 15 miles south of Point Arena, Mendocino County. (T)
(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>		
Quantity Rates:			
First 500 cu.ft. or less	\$ 5.00	(I)	
Next 1,000 cu.ft., per 100 cu.ft.80		
Next 1,500 cu.ft., per 100 cu.ft.60		
Over 3,000 cu.ft., per 100 cu.ft.40		
Minimum Charge:			
For 5/8 x 3/4-inch meter	\$ 5.00		
For 3/4-inch meter	7.00		
For 1-inch meter	11.50		
For 1 1/2-inch meter	20.00		
For 2-inch meter	27.50		(I)
For 3-inch meter	43.50		(N)
For 4-inch meter	66.00		(N)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates. (T)
|
(T)

APPENDIX A
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Schedule No. 2L

LIMITED FLAT RATE SERVICE

(T)

APPLICABILITY

Applicable to flat rate service furnished on a limited basis.

TERRITORY

Gualala and vicinity, located approximately 15 miles south of Point Arena, Mendocino County.

(T)

RATE

Per Month

For all service \$266.66 (N)

SPECIAL CONDITION

Service under this schedule shall be limited to Hollow Tree Lumber Company. (N)
(N)