

**ORIGINAL**

66255

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

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )	
KENTWOOD IN THE PINES COMMUNITY )	Application No. 44452
ASSOCIATION for an emergency in- )	Filed May 15, 1962
crease in rates for water service. )	

Application of KENTWOOD IN THE )	
PINES COMMUNITY ASSOCIATION, INC., )	Application No. 45303
for approval of sale and transfer )	Filed March 29, 1963
of utility property to Kentwood in )	
the Pines Municipal Water District. )	

R. M. Switzler, for applicants.  
Hugh R. Liddicoat and Mary May Liddicoat;  
Homer Chisholm, for Whispering Pines  
 Civic Association, protestants.  
Harry Hargreaves and E. J. Davis, for  
 Whispering Pines Municipal Water  
 District, interested party.  
Donald B. Steger and A. L. Gielegem,  
 for the Commission staff.

O P I N I O N

The above-entitled applications were consolidated for hearing, and public hearings thereon were held in Julian, California, before Examiner Rogers on April 16 and 17, and July 30 and 31, 1963.

Applicant has two separate systems known as the Whispering Pines and the Kentwood in the Pines areas.<sup>1</sup> It would appear from Application No. 44452 that the proposed rate increase

---

<sup>1</sup> The original service included the Whispering Pines area only. Subsequently, and without authority from this Commission, applicant started the Kentwood area, which is entirely separate from the original system. Applicant's entire method of operation appears to involve a deliberate disregard of the laws relative to either certificates, reports, or issuance of securities.

is to apply to each system. Ten months after the rate increase filing, applicant filed Application No. 45303 for authority to transfer the Kentwood in the Pines service area to a newly formed municipal water district.

Application No. 44452, First Report

The Hydraulic Section prepared a report dated April 10, 1963 (Exhibit 1). Pertinent information from the report is summarized as follows: Kentwood in the Pines Community Association (Kentwood) allegedly is a California nonprofit corporation organized March 7, 1958. One of the corporate functions, as set forth in the Articles of Incorporation, was to provide water service to an area approximately one mile east of the town (unincorporated community) of Julian, which area was known as Whispering Pines. By Decision No. 57222, dated August 19, 1958, in Applications Nos. 40306 and 40307, Kentwood acquired the public utility water system in the Whispering Pines area. Subsequently, without authority from this Commission, Kentwood installed a water system in the noncontiguous Kentwood in the Pines area. Rates in both areas are the same and the systems are not connected. All services are metered.

On December 31, 1962, the officers of the community association were: Wilbert C. Elstermeyer, President; Ashley L. Bishop, Vice President; and Paul Williams, Secretary and Treasurer. The first staff report (Exhibit 1) stated that two of the officers of the Association, Mr. Elstermeyer and Mr. Bishop, had provided all the funds required for the development of the various additions to this system since January 1, 1959, and that the funds provided

have been secured by second and third trust deeds. Mr. Williams is also the operator and manager of the system.

#### Whispering Pines System

Water is obtained from seven springs in Banner Canyon, all located on approximately 150 acres of land owned by the Association. Steel pipelines convey water by gravity flow to a collecting basin having a capacity of approximately 20,000 gallons at an elevation of approximately 3,555 feet. Water is pumped by two booster pumps from the basin to a 200,000-gallon reservoir at an elevation of 4,320 feet.

There is a 4-inch steel pipe installed on the surface except where it crosses under highways. There is a maximum working pressure of 370 pounds per square inch in this line. Exposure to winter freezing conditions and physical deterioration of this line result in frequent leaks which have resulted in three major failures of water service between January 1, 1959, and February 1, 1963. As of December 31, 1962, 131 customers were served by this system.

#### Kentwood in the Pines

The water supply for this system is obtained from one well presently equipped to produce 15 gallons of water per minute discharging into a 10,000-gallon tank. As of December 31, 1962, there were 63 customers therein.

The present rates have been in effect since September 12, 1949. The present and proposed rates are as follows:

	<u>Present</u>	<u>Proposed</u>
Annual minimum charge for calendar year, entitling customer to 250 cubic feet of water each month of calendar year, per meter, per year	\$30.00	\$60.00
Excess monthly use to be billed at the following monthly quantity charges:		
0 to 250 cubic feet, included in annual minimum charge.		
Next 750 cubic feet, per 100 cubic feet	.60	.80
Next 3,000 cubic feet, per 100 cubic feet	.50	.85
Over 4,000 cubic feet, per 100 cubic feet	.40	.90

Recorded revenue for the year 1962 is set forth in the following tabulation, which also shows the staff's determination of operating revenues for the year 1962, adjusted to exclude contributions made by customers for meter installations erroneously recorded as revenues<sup>2</sup> and for 1963, estimated, both at present and proposed rates.

Operating Revenues

Revenue Area Classification	Year	Year 1962 Adjusted		Year 1963 Estimated	
	1962 Recorded	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Whispering Pines	\$5,325	\$5,320	\$ 9,700	\$6,010	\$11,070
Kentwood in the Pines	3,598	2,140	3,180	3,180	5,120
Total Operating Revenues	8,923	7,460	12,880	9,190	16,190

<sup>2</sup> The applicant has been charging new services in the Whispering Pines area, a \$65.00 meter installation charge, and in the Kentwood area, a \$300 meter installation charge. The tariffs do not provide for either charge.

Operating expenses for the year 1962 were estimated by the staff as follows:

Estimated Operating Expenses

Group of Accounts	Whispering Pines		Kentwood		Total	
	1962	1963	1962	1963	1962	1963
Source of Supply Expenses	\$ 490	\$ 490	\$ 50	\$ 50	\$ 540	\$ 540
Power and Pumping Expenses	1,820	1,930	220	290	2,040	2,220
Water Treatment Expenses	140	160	190	250	330	410
Trans. & Dist. Expenses	730	770	110	130	840	900
Customer Accts. & Coll.Exp.	620	670	380	410	1,000	1,080
General Expenses	1,190	1,220	700	770	1,890	1,990
<b>Total</b>	<b>4,990</b>	<b>5,240</b>	<b>1,650</b>	<b>1,900</b>	<b>6,640</b>	<b>7,140</b>

As Kentwood in the Pines Community Association is allegedly a nonprofit corporation, no taxes based on income have been paid for the years 1959 through 1961, except the \$100 minimum state corporation franchise tax.

The staff computed taxes after considering the following factors: (1) No federal income taxes to be paid; (2) State of California corporation franchise tax at the annual minimum rate of \$100; (3) Payroll taxes based on the rates in effect on January 1, 1963; and (4) Ad valorem taxes based on the 1962-1963 code area rates and on utility plant, used and useful.

Operating Taxes

Item	Year 1962 Adjusted		Year 1963 Estimated	
	Whispering Pines	Kentwood	Whispering Pines	Kentwood
County Property Taxes	\$ 890	\$30	\$ 900	\$40
State Corporation Franchise	100	-	100	-
State Unemployment	110	20	110	20
F. I. C. A. Taxes	110	20	110	20
<b>Area Total</b>	<b>1,210</b>	<b>70</b>	<b>1,220</b>	<b>80</b>
<b>Total</b>	<b>1,280</b>		<b>1,300</b>	

On January 1, 1960, applicant restated plant amounts on the basis of a reproduction cost new appraisal of utility plant instead of prior reported original costs. Such restatement has not been authorized by the Commission. The staff made the following estimate of utility plant for each service area and for the combined operations based on original cost of plant as of December 31, 1959:

	<u>Balance</u> <u>12-31-61</u>	<u>Balance</u> <u>12-31-62</u>	<u>Estimated</u> <u>12-31-63</u>
Kentwood Area .....	\$ 33,257	\$ 35,696	\$ 38,830
Whispering Pines Area .....	<u>66,853</u>	<u>67,164</u>	<u>67,520</u>
Total .....	100,110	102,860	106,350
	<u>Year 1962</u> <u>Adjusted</u>	<u>Year 1963</u> <u>Estimated</u>	
Combined Average Utility Plant	\$101,490	\$104,610	

The estimated depreciation expenses for the years 1962 and 1963, deducting \$40 for depreciation on contributions, were estimated at \$2,370 for the year 1962, and \$2,440 for the year 1963.

An average depreciated rate base was estimated at \$38,100 for 1962, and \$36,100 for 1963. In explaining its figures, the staff stated that the average advances for construction are derived by considering the cost of mains and services in the Kentwood in the Pines area to be those normally advanced by the subdividers. Contributions in aid of construction for both areas are developed from the meter installation costs which have been paid by the new customers added in the years 1960, 1961, and 1962. There is no provision in the utility's filed tariff for charging customers for the installation of meters.

Second Report (Exhibit No. 6)

After the April 16, 1963, hearing, the staff sent written letters to customers of the utility requesting information relating primarily to financial transactions. Answers to these inquiries indicate that individuals have made contributions of money to the utility, which contributions were not recorded as contributions in aid of construction. Field inspections in July, 1963, developed that at least 84 individuals have contributed approximately \$20,400.

Based on this information, the staff revised its summary of earnings to show the year 1963, estimated, at present and proposed rates, incorporating the information relative to the \$20,400 of contributions in aid of construction, which information was not available when the original report (Exhibit 1) was prepared.

This summary for the total company for the year 1963 is as follows:

	<u>Year 1963 Estimated</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 9,190	\$16,190
<u>Operating Expenses</u>		
Operating & Maint. Expenses	7,140	7,140
Depreciation Expense	2,000	2,000
Taxes	<u>1,300</u>	<u>1,300</u>
Total Operating Expenses	10,440	10,440
Net Revenue	<u>(1,250)</u>	5,750
Average Depreciated Rate Base	15,700	15,700
Rate of Return	-	36.6%

(Red Figure)

The staff engineer stated that not all the contributions in aid of construction could be classified as to service areas in which they were applicable and for this reason, only a combined summary of earnings was prepared. The staff has made an analysis of the purposes for which contributions were made and \$1,560 was identified as associated with utility plant for individual customers, i.e., services and meters; and \$18,840 was associated with unclassified items of utility plant, i.e., mains, hydrants, and tanks.

Application No. 45303

By this application, filed on March 29, 1963, Kentwood seeks authority to sell the Kentwood in the Pines portion of its service area to the Kentwood in the Pines Municipal Water District. This transfer would remove 63 customers. The sale would be for the sum of \$15,000 in notes, payable two years from date of the transfer, and a copy of the bill of sale is attached to the application. The vice president of the selling corporation is the president of the newly formed water district. The Finance and Accounts Division of the staff reports the effect of the proposed transaction as follows:

- a. The proposed sale would deplete applicant's assets by approximately \$33,400 of net depreciated plant in exchange for \$15,000 of notes, the proceeds of which will provide no cash to applicant for needed working capital or to reduce obligations which will remain.
- b. The proposed transaction would leave applicant with depreciated plant in its Whispering Pines system having a depreciated cost of approximately \$34,000, and debt against such properties of \$54,543, and would create an untenable and precarious financial condition jeopardizing future operations as a utility.



- c. The terms of the proposed sale make no provision for a possible requirement that approximately \$20,400 or more collected from applicant's customers for meter installations and line connection charges be refunded as constituting charges not authorized by applicant's filed rules and tariffs. It appears that the bulk of such charges were collected from consumers and property owners in the Kentwood area, and thus should constitute a first claim against any proceeds of the sale of the Kentwood system.

The staff recommends that certain things be done. Such recommendations will be required by the order herein.

Findings

The Commission finds that:

1. Kentwood is rendering service as a public utility water company in the vicinity of Julian, San Diego County, California.
2. Such public utility services are rendered at a loss.
3. A depreciated rate base of \$15,700 for the test year 1963 is reasonable.
4. Applicant will require \$1,180 net revenues to earn a reasonable rate of return. An increase in gross revenues of \$2,430 is required to produce such result.
5. An increase in rates to be authorized by the order herein will enable applicant to meet its expenses of operation and earn a fair and reasonable return on its depreciated rate base hereinbefore found reasonable.
6. 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 prescribed herein, are for the future unjust and unreasonable.

7. The request for authority to increase the cost of a unit of water as the number of units of water used increases is unreasonable and should be denied.

8. The transfer of the Kentwood in the Pines area to the Kentwood in the Pines Municipal Water District would be adverse to the public interest.

9. Kentwood should be required to comply with the recommendations of the Finance and Accounts Division.

Conclusions

From the foregoing findings, the Commission concludes that:

1. Applicant's rates should be increased as set forth in the following order.

2. The request for authority to transfer the Kentwood in the Pines area system and facilities should be denied.

3. Kentwood should secure authority for any long-term debt now outstanding or to be incurred.

4. Kentwood should be ordered to comply with the staff recommendations relative to its records.

O R D E R

IT IS ORDERED as follows:

1. Kentwood in the Pines Community Association is authorized to file with this Commission, after the effective date of this order and in conformance with General Order No. 96-A, the schedules of rates for general metered service attached to this order as Appendix A, and, upon not less than five days' notice to this Commission and to the public, to make such rates effective for service rendered on and after December 1, 1963.

2. Applicant shall determine the accruals to the depreciation reserve for each primary plant account by dividing the original cost of the utility plant, less estimated future net salvage, less depreciation reserve by the estimated remaining life of the surviving plant of the account. Applicant shall make its first review and submit the results of the review to this Commission within one hundred eighty days after the effective date of this order. Thereafter, applicant shall review the accruals of each plant account when major changes in utility plant composition occur and at intervals of not more than three years. The results of these reviews shall be submitted to this Commission.

3. Application No. 45303 is denied.

4. Applicant shall adjust its accounting records to reflect plant investment and related depreciation on an original cost basis. Utility plant and depreciation reserve amounts at

December 31, 1962, set forth in Exhibit 1 in this proceeding reflect original cost bases at that date and should be used in lieu of present account balances.

5. Applicant shall apply for Commission authorization for all long-term debt now outstanding and file appropriate reports as required by Commission General Order No. 24-A setting forth the proceeds and disbursement of funds pertaining to all such obligations.

6. Applicant shall determine from all available records the total of amounts collected not in accordance with its filed rules and tariffs and record such amounts as Contributions in Aid of Construction.

7. Applicant shall submit to the Commission a report by a public or certified public accountant summarizing cash transactions of applicant since July 1, 1958, and providing explanation for apparent unaccounted for funds totalling at least \$21,429.00.

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

Dated at San Francisco, California, this 5th day of NOVEMBER, 1963.

*William M. Bennett*  
President

*John E. Mitchell*

*Wendell W. Long*

*George T. Grover*

*Frederick B. Halakoff*  
Commissioners

APPENDIX A  
Page 1 of 2

Schedule 1A (T)

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The areas known as Kentwood in the Pines, Whispering Pines and vicinity located one mile east of Julian, San Diego County. (T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Monthly Quantity Rates:		
First 300 cu.ft. or less .....	\$ 3.50	(I)
Next 700 cu.ft., per 100 cu.ft. ....	.70	
Next 2,000 cu.ft., per 100 cu.ft. ....	.55	
Over 3,000 cu.ft., per 100 cu.ft. ....	.45	
Annual Minimum Charge:		
For 5/8 x 3/4-inch meter .....	\$ 42.00	
For 3/4-inch meter .....	48.00	
For 1-inch meter .....	60.00	
For 1 1/2-inch meter .....	75.00	
For 2-inch meter .....	90.00	
For 3-inch meter .....	120.00	(I)

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

SPECIAL CONDITIONS

1. Service will be furnished only on an annual basis. (N)
2. The above annual minimum charges apply to service during the 12-month period commencing June 1, and are due in advance.

(Continued)

Schedule 1A

ANNUAL GENERAL METERED SERVICE

SPECIAL CONDITIONS--Contd.

3. For initial service connected after June 1, the annual minimum charge will be prorated. Re-establishment of disconnected service will not be on a prorated basis. (N)

4. Water used in excess of the monthly allowance under the annual minimum charge may be billed monthly or bimonthly at the option of the utility on a noncumulative monthly consumption basis. (N)