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ORIGINAL

Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of STAN and
 LUCILLE E. KORTH, husband and wife, }
 dba, LUCERNE WATER COMPANY }
 For an Order, under Section 454 }
 of the Public Utilities Code, }
 authorizing an increase in water }
 rates. }

Application No. 45574
 (Filed July 3, 1963)
 (Amended October 29, 1963)

Stan Korth, John E. Callouette and Lee A. Long,
 for applicants;

Henry E. Morse, Jr., for Lucerne Park and
 Recreation District, protestant;

Edmund J. Texeira, for the Commission staff.

O P I N I O N

Public hearing in this matter was held before Examiner Emerson on October 29, 1963, at Lucerne and the matter was submitted subject to receipt of two late-filed exhibits, now in hand. The matter is ready for decision.

Applicants seek a general increase in rates which, under their oral amendment of pleadings made at the hearing, would be effective for a three-year period at the end of which applicants propose that the Commission reevaluate their earning position and establish lower rates. Applicants' reasons for such a request are that an immediate and major repair and replacement program is essential, due to neglect of the water system by prior owners, if adequate service is to be provided and that funds must be immediately available for such purpose. Applicants aver that they can borrow funds only if their present losses are halted and reasonable earnings established.

Applicants purchased the water system in May 1961. They found the system to be woefully run down and neglected, with an excessive number of leaky mains, many inoperable valves, much wasted water, excessive pumping costs, a cracked and leaking reservoir, many broken or inoperable meters and a partially inadequate water treatment system. Applicants aver that since the date of purchase they have been so fully occupied with making immediately essential repairs that only now have they been able to formulate plans or prepare a program looking towards permanent improvement of the water system. In effect, two proposed programs are presented. The first would encompass somewhat of a "crash" program, covering a period of three years. The second would encompass a water main replacement program covering a period of about seven years.

The evidence shows that applicants' source of water supply is Clear Lake, from which water is drawn through a single suction line and treated with chlorine and aluminum sulphate before being passed through two sand filters prior to entering the storage and distribution system. The utility's growth (applicants now serve 515 customers) has reached the point where the supply is barely adequate during periods of peak demand. Production and treatment facilities must be increased. In the latter respect, applicants will install an additional filter (charcoal type) in order to improve the taste of the water and make it more palatable. At the same time, the existing aluminum sulphate equipment, never better than a makeshift arrangement left by prior utility owners, will be modernized and the existing chlorination facilities will be repaired and improved so as to make possible a more uniform treatment process, assure a safe water supply and lessen customer complaints regarding water potability. These matters need immediate attention.

Applicants' two reservoirs also need major repairs. The North Reservoir needs a new varmint-proofing screen and roof repairs. The East Reservoir, built about 40 years ago from creek run sand and gravel and without steel reinforcing, has developed numerous cracks in its bottom and is badly leaking. Applicants propose to reline the inside of the reservoir using reinforcing steel and wire mesh, by means of the Guniting process, and to make major repairs to the roof structure. These matters also require early, if not immediate, attention.

Interruptions in water service in order to repair water main leaks have been numerous and widespread. Because of neglected and inoperable valves in the distribution system, repairs to leaking mains can presently be accomplished only by shutting down approximately one-half the total system. Fifteen major sectionalizing valves are involved. Applicants propose to overhaul and repair each of these valves within the next year.

Apparent for some time, to the community, to the water system owners and to this Commission, has been the fact that water wastage on this system is abnormal. Far more water is pumped than is used or sold to the customers. Present estimates indicate a loss of more than 25 percent of the water pumped. The bulk of such loss occurs in leaking water mains, much of it not appearing at the surface but seeping back into the lake through porous underground strata and thus being normally undetectable. Applicants propose to undertake a systematic program of leak detection in which all mains are periodically checked with an electronic leak detector. The program will require the services of 2 men for periods of 17 weeks in each of the next 3 years. It is proposed to start the program at once.

Approximately 20 percent of the customer meters on applicants' system are inoperative. Applicants suffer a revenue loss from these customers, since billings for such meters are for minimum charges rather than for water actually used. This situation needs prompt attention. In addition, a regular meter testing and overhaul program is needed.

The water distribution system consists of about 75,000 feet of mains varying in size from 1½ inches to 6 inches in diameter. While in general its estimated remaining life is about 35 years, some 20,000 feet of mains should be replaced. It is estimated that the main replacement program will cost about \$90,000 and may be completed in about 7 years.

In essence, applicants propose that the maintenance which has been deferred by prior utility owners over many years, until it may no longer be avoided, now be undertaken and request that the expenses attendant thereto be met by new and somewhat special rates for water service during the next three-year period. They further request that their utility earning position be improved, by halting losses and being allowed a reasonable return on their investment so that they may borrow funds sufficient to meet the capital costs of main replacements and other capital improvements.

A comparison of applicants' proposed metered service rates and the water rates presently in effect is shown in the following tabulation. Applicants' proposed rates would raise the water bills of the average customer by 115 percent. Applicants have rates for

metered seasonal service and flat rate service, but since the area has changed from one of seasonal vacation-type occupancy to year-round and permanent occupancy, applicants propose to withdraw schedules for these services. Applicants propose no increase in their rate for fire hydrant service but do propose that the present \$25 per month charge to the Lucerne Hotel for fire sprinkler and fire hydrant service be increased to \$55 per month.

GENERAL METERED SERVICE

<u>Monthly Quantity Rates</u>		<u>Present</u>	<u>Proposed</u>
First	400 cu.ft. or less	\$3.00	\$6.45
Next	600 cu.ft., per 100 cu.ft.40	.86
Next	4,000 cu.ft., per 100 cu.ft.35	.75
Over	5,000 cu.ft., per 100 cu.ft.25	.54

The evidence respecting the recorded results of applicants' operations since they acquired the water system on May 1, 1961, shows a net profit of \$48.90 for the partial year 1961 and a net loss of \$2,633.47 for the full year 1962. The "net profit" for the partial year 1961, was before any allowance whatsoever for salaries to the owners, however, which, if charged, would have recorded a loss for such year's operations.

The evidence respecting applicants' earning position for the year 1963, as presented by applicants and by the Commission staff, is summarized in the following tabulations.

Summary of Operations
Year 1963 - Estimated

Present Rates

<u>Item</u>	<u>Applicants</u>	<u>CPUC Staff</u>
Operating Revenues	\$24,416	\$25,900
Operating Expenses		
Before taxes and depreciation	21,990	20,170
Taxes	4,061	3,170
Depreciation	<u>5,403</u>	<u>4,320</u>
Total Operating Expenses	31,454	27,660
Net Revenue	(7,038)	(1,760)
Rate Base (depreciated)	37,871	37,100
Rate of Return	Loss	Loss
	(Red Figure)	

Proposed Rates

<u>Item</u>	<u>Applicants</u>	<u>CPUC Staff</u>
Operating Revenues	\$49,280	\$55,150
Operating Expenses		
Before taxes and depreciation	36,140	20,170
Taxes	4,427	13,070
Depreciation	<u>5,403</u>	<u>4,320</u>
Total Operating Expenses	45,970	37,560
Net Revenue	3,310	17,590
Rate Base (depreciated)	37,871	37,100
Rate of Return	8.74%	47.4%

The differences between the showing of applicants and the staff arise in four major categories. The first main difference concerns revenues. Applicants' revenue estimates are based on collections during 1962 adjusted upward, to reflect an assumed 50 additional customers and revenues from an assumed average of 484 customers in 1963. The staff's estimates are based on the expected revenues from

an average of 505 customers in 1963, including minimum-rate revenues for 80 nonoperative meters. The evidence shows that as of the end of September 1963, applicants actually served 515 customers and had 79 nonoperative meters. In view of such facts, the staff estimate for the average year 1963 appears to be the more accurate and will be adopted for the purposes of this proceeding.

The second major difference concerns applicants' proposed three-year repair program. While the staff agrees with applicants that a major program of repair and improvement is necessary, the staff's basic approach to the problem is that the maintenance work should have been done over a long period of time and that applicants' proposed "crash" program would place an unreasonable burden on present-day customers. The staff, therefore, spread most of the repair-program expense over a ten-year period.

The third major difference, affecting both operating expenses and plant costs, concerns the accounting to be followed for rehabilitating the cracked East Reservoir. Applicants have treated this item as an expense. The staff has classified the item as cost of plant. The facts are that the work to be done will consist of relining the existing reservoir, repairing the existing roof-supporting structure and installing a new roof thereon. In view of the evidence on this subject, the Commission finds that the relining of the reservoir shell and the repairing of the roof-supporting structure are operating expense items and that the installation of a new roof is a plant cost item. They will be so treated for the purposes of this proceeding.

The fourth major difference concerns depreciation expense. In this respect, a depreciation accrual calculation submitted by applicants and containing a composite rate of 3.33 percent was reviewed and approved by the Commission in October 1962. In their presentation in this proceeding, applicants' composite rate is computed to be 3.43 percent. Applicants' gross plant has increased approximately 170 percent since the 1962 review of depreciation rates, the bulk of the increase having occurred in the Transmission and Distribution Account. The overall effect of this large increase in plant is to lengthen the remaining life of plant and, thereby, to reduce the composite accrual rate. The staff-derived composite rate, based upon present-day plant items, is 2.65 percent. The staff-determined depreciation accrual rates and reserve calculations properly reflect current plant items and the remaining-life method of depreciation accounting and will be adopted for the purposes of this proceeding. Applicants' total plant, of approximately \$156,000 has reached the point where future distribution of the depreciation reserve and future accrual calculations should be made by individual plant accounts.

Minor differences between the estimates of applicants and staff result from applicants having increased operating expenses in direct proportion to increased customers (11.5 percent), having included insurance premiums not applicable to utility operations and having included nonrecurring expenses in the single year. In each of these items, the staff has either eliminated duplicated or inappropriate items or has spread the costs over a period of years.

The principle has been long established that the cost of deferred maintenance is but a portion of the payment for property acquired and, further, that where deferred maintenance existed at the time the properties were purchased, all of such deferred maintenance

should not be directly assessed to operating expenses (24 CRC 33,37). Another long-established principle is that when a utility has earned sufficient revenue in the past to have taken care of maintenance work in a normal manner, the cost of such maintenance, when deferred, should not be included in estimates of future operating expense to be made up out of rates (24 CRC 69,76). In the instant proceeding the evidence is clear that applicants' operations have not in fact produced sufficient revenue to provide for normal maintenance expenditures, let alone deferred items, since their acquisition of the system. The maintenance not done by prior owners remains to be done. Indeed, it must be done if customers are to receive adequate service. What must prevail in these circumstances is a reasonable balance of customer and utility interests. The Commission finds it to be reasonable, for the rate-making purposes of this proceeding, to allow in operating expense for the test year 1963 one-sixth of the expenses associated with the special maintenance program, rather than either the one-third proposed by applicants or the one-tenth used by the staff.

The Commission finds that the revenues, expenses and rate base set forth in the following tabulation are reasonable for the purpose of estimating the results of applicants' operations for the test year 1963.

<u>Item</u>	<u>Adopted Results of Operations</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$25,900	\$55,150
Operating Expenses	29,430	38,240
Net Revenue	(3,530)	16,910
Rate Base (depreciated)	37,100	37,100
Rate of Return	Loss	45.6%

(Red Figure)

Individual customers as well as the protestant in this proceeding oppose any increase in applicants' rates. Others object to the magnitude of the increase sought by applicants. Several complain of the taste of the water and do not use it for drinking or cooking. It is fundamental law that a utility may not be forced to operate at a loss. It is also basic that customers are entitled to receive a reasonably adequate service and potable water. Applicants have demonstrated their need for and entitlement to increased revenues. Tests show that the water is safe for human consumption. The new charcoal filter system which applicants will install should substantially remove all objectionable tastes and odors from the water.

The evidence is clear that applicants are in need of and entitled to increased revenues. The rates which they have proposed, however, would produce an excessive return. The Commission finds that the rates hereinafter authorized are fair and reasonable rates for the service to be rendered and that said rates will produce a rate of return of approximately 10 percent on an average depreciated rate base of \$37,100, which rate base and rate of return the Commission finds to be fair and reasonable under the circumstances disclosed in this proceeding and as herein discussed. The Commission further finds that the increases in rates and charges authorized herein are justified and that existing rates and charges, insofar as they differ from those herein authorized, are for the future unjust and unreasonable. The new rates will increase utility revenues by \$7,250 annually and the bill of the average customer by approximately 29 percent.

Applicants will be required to make those system additions and improvements which the record herein indicates are necessary to its proper operation and to report as to the progress thereon at regular intervals. Applicants are placed on notice that their rates and operations are subject to the continuing jurisdiction of this Commission and that the Commission may at any time reopen this proceeding for the receipt of evidence respecting their performance or the level of their rates.

O R D E R

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 the provisions of 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 public and to this Commission, to make said schedules effective for water service rendered on and after February 1, 1964. Concurrently with the effective date of these rates, all existing rate schedules shall be withdrawn.

2. Within ninety days after the effective date of this order applicants shall:

a. File in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96-A, a revised tariff service area map and copies of forms normally used in connection with customers' services, said map and forms to become effective on the fifth day following such filing; and

b. File with this 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.

3. By not later than June 30, 1964, applicants shall have installed and in proper operation additional pumping and water treatment facilities, including a charcoal filtering installation and chlorinating equipment, sufficient to assure a delivery of not less than 275 gallons per minute of water, at normal system pressure, to the system from the source of supply and shall report to this Commission in writing that such has been accomplished not later than ten days thereafter.

4. On or before July 1, 1964, applicants shall institute a meter repair program in conformity with the requirements of this Commission's General Order No. 103 and thereafter shall report to this Commission in writing the status of said program as of September 30, 1964, December 31, 1964 and March 31, 1965 within ten days following each of said dates.

5. Applicants shall forthwith undertake a system repair and main replacement program comparable to that which they have proposed in this proceeding and by not later than December 31, 1964 shall report to this Commission in writing the status of such program and their progress and future plans respecting the same.

6. Beginning with the year 1964, applicants shall determine accruals to the depreciation reserve for each plant account by the remaining-life method of depreciation accounting. Reviews of such accounting accruals shall be made whenever major changes in plant composition occur and at intervals of not more than five years. Results of these reviews, including an initial determination as of January 1, 1964, shall be submitted to the Commission.

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

Dated at San Francisco, California, this 21st day of JANUARY, 1964.

William W. Bennett
President

Richard L. ...

Charles W. ...

George G. Traver

Frederic B. Holdhoff
Commissioners

APPENDIX A
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Schedule No. 1

(T)

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Lucerne and vicinity, Lake County.

(T)

RATES

Per Meter
Per Month

Quantity Rates:

First 400 cu.ft. or less	\$ 4.00	(I)
Next 4,600 cu.ft., per 100 cu.ft.45	
Over 5,000 cu.ft., per 100 cu.ft.30	

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 4.00	
For 3/4-inch meter	5.00	
For 1-inch meter	7.00	
For 1 1/2-inch meter	12.00	
For 2-inch meter	18.00	
For 3-inch meter	30.00	(I)

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

Schedule No. 2AR

(T)

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Lucerne and vicinity, Lake County.

(T)

RATE

	<u>Per Service Connection Per Year</u>	
For a single-family residential unit, including premises	\$54.00	(I)

SPECIAL CONDITIONS

1. The above flat rate applies to service connection not larger than one inch in diameter. (N)
2. For service covered by the above classification, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated flat rate payment shall be made on or before that day. (N)
3. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated flat rate charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. (T)

(Continued)

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS (Continued)

4. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

(N)

(N)

APPENDIX A
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Schedule No. 4L

(T)

LIMITED PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all private fire protection service furnished to the Lucerne Hotel.

TERRITORY

Lucerne and vicinity, Lake County.

(T)

RATE

Per Month

Flat rate charge \$35.00 (I)

SPECIAL CONDITIONS

1. Service hereunder is for private fire protection systems (T)
to which no connection for other than fire protection purposes are
allowed and which are regularly inspected by the underwriters having
jurisdiction, are installed according to specifications of the
utility, and are maintained to the satisfaction of the utility. The
utility may install the standard detector type meter approved by the
Board of Fire Underwriters for protection against theft, leakage or
waste of water and the cost paid by the applicant. Such payment
shall not be subject to refund. (T)

2. The utility will supply only such water at such pressure
as may be available from time to time as a result of its normal
operation of the system. Such normal operation by the utility shall
provide for withdrawing only such supply as may be available in
approximately the upper one-half of the East Reservoir.

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized fire districts and other political subdivisions of the State. (T)

TERRITORY

Lucerne and vicinity, Lake County. (T)

RATE

	<u>Per Month</u>
For each hydrant	\$1.00 (T)

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges shall be made at the quantity rates under Schedule No. 1, General Metered Service. (N)

2. The cost of installation and maintenance of hydrants shall be borne by the public authority. (T)

3. Relocation of any hydrant shall be at the expense of the party requesting relocation. (N)

4. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system. (N)