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ORIGINAL

Decision No. 67647

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

HAROLD T. THRASH, (La Porte Pines Water Company), a sole proprietorship, for a certificate of public convenience and necessity to complete construction, operate, maintain and use a water system located near La Porte, Plumas County, California, and to establish rates.	Application No. 46322 (Filed March 27, 1964)

Florence Westfall Littlejohn, for applicant.
Robert W. Steel, for La Porte Water District, interested party.
John J. Gibbons and David K. Wong, for the Commission staff.

O P I N I O N

This application was heard before Examiner Rowe at San Francisco on June 16, 1964, on which date it was submitted with the provision that a copy of the application heretofore filed by applicant with the California Department of Water Resources be presented as late-filed Exhibit No. 2. Copies of Application No. 46322 and the notice of hearing thereon were served in accordance with the Commission's procedural rules. There were no protests filed, but La Porte Water District, a nonprofit corporation, acting as a mutual water company asked that the issuance of the requested authority be conditioned upon the issuance of the water rights permit by the State Water Rights Board.

This application requests a certificate of public convenience and necessity to construct and operate a public utility water system and to establish rates in an area owned by applicant

and known as La Porte Pines Country Club Subdivision in Plumas County. A Commission staff financial examiner and an engineer made a field investigiation on May 12, 1964, and prepared a report, Exhibit No. 4, containing recommendations which will hereafter be discussed. Applicant introduced evidence to show that public convenience and necessity required the issuance of the requested certificate, that its proposed rates were reasonable and justified, and that the use of plastic pipes was in substantial compliance with General Order No.103.

Because of its thorough and accurate quality the description of the area, the system, cost and operating results as found in the staff report, Exhibit No. 4, will be utilized in some detail herein.

Management and Affiliated Interest

Applicant proposes to employ Mr. Walter Meyers to manage and maintain the water system. Mr. Meyers, who has experience in piping, installed the water system for the applicant. The State Department of Public Health's Report of Sanitary Engineering Survey dated May 6, 1964 shows that the operation of the system will be under qualified, conscientious supervision.

Applicant is also the owner and developer of the subdivision involved in this application. Applicant informed the staff engineer that he was developing the subdivision from his private funds and that no improvement bonds are involved. The annual report of the Rio Bonito Warehouse Corporation filed with this Commission for the year ending March 31, 1963 shows that Mr. H. T. Thrash is president and a principal stockholder. The report shows two other agricultural business firms under common control.

Service Area

The area for which a certificate is requested is located in a portion of Section 17, Township 21 North, Range 9 East, M.D.B.& M., Plumas County. It is located approximately one-third of a mile northwest of the Town of La Porte, and includes approximately 70 acres

to be subdivided into 204 resort-type residential lots. The majority of the lots each contain 10,000 square feet. Elevations of the subdivion range from 5,000 feet above sea level in the northeast section to 5,320 feet in the southwest corner. Applicant informed the staff engineer that the buyers of lots will be required to be members of the La Porte Pines Country Club and pay a membership fee of at least $25 per year. Ownership of the streets and the recreational area in the subdivision is to be transferred to the club and it will be responsible for the improvement and maintenance of these facilities. Easements for the water mains through the streets will be retained by the applicant.

The nearest water system is operated by La Porte Water District which serves the Town of La Porte, 1,500 feet southeast of applicant's subdivision. The La Porte Water District has an emergency water supply source 1,500 feet downstream from applicant's intake. The District's 2-inch pipeline from the source crosses applicant's subdivision in an easement 12 feet in width. A ski hut located in the recreational area on Lot A of applicant's subdivision has been receiving water service from the District with the understanding that applicant would furnish the service as soon as applicant's water system is in operation.

Water Production Facilities

The source of water supply is Rabbit Creek fed by a spring on Lexington Hill, with a water shed of 70 acres ranging in elevation from 5,407 to 5,750 feet above sea level, located on applicant's property approximately 1,100 feet west of the subdivision in the northwest corner of the NE ¼ of the NW ¼ of Section 17 T.21N., R.9E, M.D.B. & M. Exhibit C and the State Department of Health's Report of Sanitary Engineering Survey show that the flow in the stream past the intake point was 75 to 80 gpm in the Fall of 1962,

following an average precipitation year. Exhibit C shows that there is another spring located approximately 200 feet south of the proposed 30,000-gallon storage tank having a measured capacity of 7.5 to 10 gallons per minute. This second spring source has not been included in the system but is available if needed. The peak hour water supply requirement for 204 flat rate service customers in this resort-type subdivision is estimated to be approximately 300 gpm. The proposed water system with 266,800 gallons of usable storage, upon completion, would be adequate to serve approximately 270 resort-type customers.

Water diverted from Rabbit Creek flows to a 230,000-gallon unlined open earth reservoir at an elevation of 5,385 feet, then through an adjacent 10,000-gallon redwood tank for chlorination. The water is then to be piped to the entrance of the subdivision, and to a 30,000-gallon redwood storage tank scheduled to be completed in June, 1964. All transmission and distribution of water will be by gravity flow. The reservoir, chlorinator tank and proposed distribution storage tank are constructed, or will be constructed, for a reservoir water elevation of 5,385 feet.

Water Supply Permit

Applicant has received a water supply permit from the California State Department of Public Health, which shows that the system will be capable of producing and delivering water of satisfactory quality for domestic use.

Transmission and Distribution System

The transmission and distribution system consists of approximately 3,260 feet of 6-inch and approximately 11,330 feet of 4-inch, AMCO Schedule 40, Type I, Polyvinyl Chloride pipe, National Sanitation Foundation approved. Both single and double customer services are 1-inch Schedule 40, Type I, P.V.C. pipe. No fire hydrants have been installed. There are several dead ends on the

mains which are provided with blowoff valves for flushing. Two pressure reducing stations are installed in the distribution system at elevation of 5,136 feet to provide a satisfactory pressure between 30 to 100 psi to the service connections. The California Department of Public Health Report of Sanitary Engineering Survey shows the analysis of the distribution system as follows:

> "The distribution system is adequately sized and gridded. The 6-inch rigid plastic pipe may not have the required 150 psi working pressure at the existing water temperature. The maximum static pressure in the 6-inch pipe will be about 100 psi. The owner of the system will replace the plastic pipe with approved AWWA material if there is a major failure of the plastic pipe."

Applicant was placed on notice that the burden rested upon him to demonstrate that the plastic materials used in the water system were suitable for the proposed service and met the requirements of General Order No. 103, Section III 5.a., which pertains to materials used in water systems.

Except for use of polyvinyl chloride pipe the proposed water system appears to meet the requirements of General Order No.103, "Rules Governing Water Service, Including Minimum Standards for Design and Construction."

Status of Construction

Construction of the water system was started in 1963. At the time of field investigation, 80 percent of the water system had been installed. The system was expected to be completed in June 1964 by installation of the 30,000-gallon storage tank, a building for the chlorinator and a fence to enclose the reservoir. Construction of residences had not been started in May 1964. In view of the fact that the water system was installed and that the pipes were buried prior to the time of field investigation, it was not determined whether or not the pipes were laid in accordance with the manufacturer's recommendations to backfill with soil or sand free of large

rocks or clods for about 6 inches around the pipe. Applicant's engineer, Mr. R. Vail, informed the staff engineer during the field investigation that the open earth reservoir appears to have water seeping through the east side, and that it appears to be necessary to line the reservoir. Therefore, it is recommended that lining be provided in the open earth reservoir.

Customers

The water system is designed to serve 204 lots in the subdivision which is to be developed into a resort area. Applicant expects that no more than 20 lots will be built upon within the first year. Applicant expects to have 40 customers at the end of the second year, and that it will be at least seven years before the entire subdivision is occupied.

Verification of Completed Construction Costs

Exhibit B attached to the application includes an estimate of plant construction costs in a lump sum total of $48,000, of which $42,400 is represented as completed construction costs to date. The staff reviewed the supporting invoices on the completed construction portion of the water system and classified the expenditures in accordance with the uniform system of accounts for water utilities as shown in the following tabulation:

Water Treatment Equipment	$ 518
Reservoirs and Tanks	3,600
Transmission and Distribution Mains	32,048
Services	1,500
Subtotal	37,666
Engineering Fees	2,400[a]
Total Completed Construction	$40,066

a. To be distributed to plant accounts when construction of water system is completed.

The costs for completed construction set forth in Exhibit B of the application exceeded by $2,334 the figure developed by the staff as shown in the foregoing tabulation. However, the applicant overlooked including certain costs in arriving at the figure for completed construction as follows:

Legal Fees - preparing application	$ 750
Applicant's estimate of land costs	2,000
Total	$2,750

The tabulation which follows shows the total estimated cost to complete the water system giving effect to the staff's findings:

Completed construction	
Supported by invoices	$40,066
Costs overlooked in Exhibit B	2,750
Subtotal	42,816
Applicant's estimated future costs to complete water system	5,600
Total	$48,416

Estimated Operating Results

Applicant proposes to furnish service on a flat rate basis. Applicant's estimated annual revenues and expenses based on serving 204 customers, with an annual flat rate revenue of $54 per customer, and including the staff's estimate on income taxes, are summarized as follows:

	Total
Operating Revenues (204 customers x $54)	$11,016
Operating Expenses	
Transmission & Distribution Expenses	750
Customer Account. & Collect. Expenses	200
General Expenses (Salary $4,800; Office Supplies & Misc. $200; Insurance $150)	5,150
Depreciation (4% of $48,000)	1,920
Taxes Other Than Income (Ad Valorem Tax $100; Payroll Tax $345)	445
Taxes on Income (California Franchise Tax $26; Federal Income Tax $505)	531
Total Operating Expenses	$ 8,996
Net Revenue	2,020
Rate of Return (on $48,416)	4.2%

The above tabulation indicates that if the subdivision were fully developed, the rates requested by applicant would not produce an unreasonable rate of return.

Financial Responsibility

The application in Paragraph VI, page 3, states that "applicant is financially able to pay for said system in full and to pay the operating expenses of same, and that a copy of the financial statement of applicant is attached hereto, marked Exhibit E..."

The unaudited balance sheet submitted as Exhibit E attached to the application shows a substantial net worth for applicant and indicates that he would have little difficulty in meeting the added financial burdens that might result from the operation of a small water utility in its initial stages of development. Because of the nature of the development -- lot sales for summer residences, and the type of construction (plastic pipe) --, the staff is of the opinion that if applicant is granted a certificate as requested, applicant should be placed on notice that:

1. Extraordinary maintenance costs or premature replacement costs occasioned by the type of materials selected will not be considered by the Commission as justification for increased water rates in future proceedings before this Commission.

2. Net operating losses occasioned by the failure of the subdivision to develop on a self-sustaining basis at reasonable rates will be absorbed by the applicant.

The notice of hearing advised applicant that it would be required to justify its use of plastic pipe in the construction which has now been installed.

The testimony discloses that the plastic pipe was not installed in accordance with the manufacturer's specification for installation under roads, and that the material had not been approved by the American Water Works Association, because it has not been used enough to prove itself. Applicant is hereby placed on notice that

extraordinary maintenance costs or premature replacement costs occasioned by the type of materials selected will not be considered by the Commission as justification for increased water rates in future proceedings before this Commission. Applicant is also placed on notice that he may be required to absorb net operating losses occasioned by the failure of the subdivision to develop on a self-sustaining basis at reasonable rates.

The request of La Porte Water District appears reasonable, since without an adequate source of water applicant should not be authorized to institute service.

Findings

Upon consideration of the evidence the Commission finds as follows:

1. Public convenience and necessity require that the application be granted as requested.

2. Applicant possesses the financial resources to construct and operate the water system as constructed and proposed.

3. The authorization herein granted is not to be construed as a finding of the value of applicant's properties, nor as indicative of amounts to be included in any future rate base for determination of just and reasonable rates.

4. The rates proposed and as set forth in Appendix A attached hereto are fair and reasonable for the service to be rendered.

5. Applicant's water supply will be adequate only upon his procuring the water permit for which he has filed his application with the State Water Rights Board.

Based upon the above findings the Commission concludes that applicant should be granted the requested authorization as set forth in the following order. The certificate hereinafter granted shall be subject to the following provision of law:

That the Commission shall have no power to authorize the capitalization of this certificate of public convenience and necessity or the right to own, operate, or enjoy such certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right.

O R D E R

IT IS ORDERED that:

1. A certificate of public convenience and necessity is granted to Harold T. Thrash, dba La Porte Pines Water Company, authorizing him to construct and operate a public utility water system to serve La Porte Pines Country Club Subdivision, Plumas County, provided that within one hundred and eighty days after the effective date of this order applicant shall file with this Commission a written acceptance of the certificate herein granted accompanied by the permit applied for and to be issued by the State Water Rights Board.

2. After the effective date of this order and not less than five days before service is first furnished to the public under the authority granted herein, applicant shall file with this Commission the schedules of rates set forth in Appendix A to this order, a tariff service area map clearly indicating the boundaries of the certificated area, appropriate general rules, and copies of printed forms to be used in dealing with customers. Such filing shall comply with General Order No. 96-A and the tariff schedules shall become effective on the fourth day after the date of filing.

3. Within ten days after service is first furnished to the public under the authority granted herein, applicant shall file with this Commission written notice thereof.

4. Within sixty days after service is first furnished to the public under the authority granted herein, applicant shall 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 parcels of land and territory served; the principal water supply, transmission, pressure, storage and distribution facilities; and the location of applicant's various water system properties.

5. Beginning with the year 1964, applicant shall determine depreciation accruals by multiplying the original cost of depreciable utility plant by a rate of 4 percent. This rate shall be used until review indicates it should be revised. Applicant shall review the depreciation rate, using the straight-line remaining life method, whenever major changes in depreciable utility plant composition occur and at intervals of not more than five years; shall revise the depreciation rate in conformance with such reviews; and, upon completion of each review, shall submit promptly to this Commission the results thereof.

6. The authorities granted herein shall expire unless the designated tariffs are filed within one year after the effective date of this order.

7. Within one hundred ninety days after the effective date of this order, applicant shall file with this Commission a written detailed program for the completion of the water system including

the lining and fencing of the earth reservoir, the erection of a building for the chlorinator, and the installation of a 30,000-gallon redwood storage tank.

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

Dated at San Francisco, California, this 4th day of AUGUST, 1964.

Frederick B. Holoboff
President

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The area known as La Porte Pines Country Club Subdivision, and vicinity, located approximately one-third of a mile northwest of La Porte, Plumas County.

RATES

Monthly Quantity Rates:	Per Meter Per Month
First 600 cu.ft. or less	$ 4.00
Next 1,400 cu.ft., per 100 cu.ft.	.30
Over 2,000 cu.ft., per 100 cu.ft.	.25

Annual Minimum Charge:	Per Meter Per Year
For 5/8 x 3/4-inch meter	$ 48.00
For 3/4-inch meter	60.00
For 1-inch meter	84.00

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. The annual minimum 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 minimum charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods

(Continued)

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

SPECIAL CONDITIONS (Continued)

for water used in excess of the monthly allowance under the annual minimum charge. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis.

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual minimum 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 year. 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.

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The area known as La Porte Pines Country Club Subdivision, and vicinity, located approximately one-third of a mile northwest of La Porte, Plumas County.

RATES

	Per Service Connection Per Year
For a single family residential unit, including premises	$ 54.00

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.

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

3. For service covered by the above classifications, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual 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 difference between such flat rate payment and the minimum meter charge for the same period shall be made on or before that day.

(Continued)

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS (Continued)

4. 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.

5. 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 year. 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.