

**ORIGINAL**Decision No. 68603

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of ARROWHEAD UTILITY COMPANY )  
for an adjustment in its rates )

Application No. 46253

(Filed March 2, 1964)

Gibson, Dunn & Crutcher, by Max Eddy Utt,  
for applicant.  
Charles G. Mackey, George W. Veale,  
Frank H. Golden, G. K. Baldwin,  
Mrs. Joan B. Hansen, Audrey M. Mason,  
Marguerite C. Lammersen (Mrs. Walter  
Robert), Don H. Moore, Dr. and Mrs. W. E.  
Lord, in propria personae, and James E.  
Tupy, for G. J. Shill, protestants.  
William F. Conrad, in propria persona, and  
for Arrowhead Woods Property-Owners  
Association, and John A. Thompson, for  
Lake Arrowhead Property-Owners Assn.,  
interested parties.  
Chester O. Newman and C. Strelinski, for  
the Commission staff.

O P I N I O N

By this application, Arrowhead Utility Company, a public utility water corporation furnishing water service to approximately 1,700 customers at Lake Arrowhead in unincorporated territory of San Bernardino County, seeks authority to increase its general metered service rates by an annual amount of approximately \$100,000, or 87.5 per cent. No change is proposed in the minimum charges per meter, although the bimonthly minimum usage allowance would be reduced from 800 cubic feet to 500 cubic feet.

Public hearings were held before Examiner Warner on May 20 and 21 and August 11, 1964, and before Commissioner Grover

and Examiner Warner on August 12 and 13, 1964, at Lake Arrowhead. Several protests regarding not only the magnitude of the proposed increase, but the proposed spreading of the increase between permanent and seasonal users were entered. Several complaints were entered regarding low pressure conditions in certain areas, and some customers complained of their inability to reach applicant's operating personnel to register complaints of service deficiencies. Other customers complained that applicant was depleting the lake's water supply for the benefit of applicant's parent company's real estate developments in an area within applicant's certificated area somewhat removed from the lake, and that such depletion would destroy property values surrounding the lake.

Applicant's last rate increase was granted by Decision No. 43201, dated August 9, 1949, in Application No. 29814. At that time, applicant was owned by the Los Angeles Turf Club and increases in rates were authorized which would produce a rate of return of 4.88 per cent on the estimated results of operations for the year 1949 at the rates proposed in the application based on Commission staff estimates of the rate of return components, and such rate increase and rate of return were then found to be just and reasonable.

The present parent is Lake Arrowhead Development Co., which acquired applicant together with all other properties at Lake Arrowhead from the Turf Club on October 28, 1960. According to a letter of understanding, dated May 7, 1964, between applicant and its parent (Exhibit No. 3), applicant is entitled to secure its water supplies from Lake Arrowhead pursuant to the terms of a grant deed made by Arrowhead Lake Company, dated March 28, 1924. Exhibit No. 2

is a copy of parent's consolidated balance sheet as of October 31, 1963, and consolidated statement of income and earnings reinvested in the business for the year ended October 31, 1963. Said Exhibit shows parent's total assets of \$10,971,795 as of said date and profit after federal income taxes of \$836,638 for said period.

Applicant contends that it has suffered an aggregate recorded net operating loss, before depreciation, in the amount of \$80,408 for the five-year term ending December 31, 1963; that similar losses had also been sustained in earlier years; and that such losses, together with substantial capital additions, have been financed by applicant's parent through the process of open account borrowing so that as of December 31, 1963, applicant was indebted to its parent for such borrowings in the total sum of \$857,749. Increases in rates are proposed to place applicant's water service on a compensatory basis.

The following tabulation compares present general metered service rates with those proposed by the applicant, with a form suggested by the Commission staff, if the applicant's proposed rates were authorized, and with the rates authorized hereinafter.

COMPARISON OF PRESENT, PROPOSED AND AUTHORIZED GENERAL METERED SERVICE RATES

		Per Meter Per BIMONTHLY Period			
Quantity Rates		: Present	: Proposed Rates:		: Authorized:
		: Rates	: Co.	: Staff*:	: Rates
First	800 c.f., or less	\$5.00		\$8.20	\$7.10
First	500 c.f., or less		\$5.00		
Next	1,200 c.f., per 100 c.f.	.40	.70	.65	.56
Over	2,000 c.f., per 100 c.f.	.30	.70	.50	.41

\*Staff proposed rates are for comparison only and are not based on staff summary of earnings.

The record shows that the average bimonthly consumption is 1,800 cubic feet. At the present rates, the charge therefor would be \$9.00; at the proposed rates suggested by the applicant, \$14.10, an increase of 57 per cent; at the applicant's proposed rates as redesigned by the staff, \$14.70. The average bimonthly charge under the rates authorized herein will be \$12.70, an increase of 41 per cent over the present rates.

Exhibit D is a report on applicant's results of operations for the years 1963, 1964 and 1965 prepared by applicant's consulting engineer. Exhibit No. 7 is a report on applicant's operations for the years 1964 and 1965 prepared by a Commission staff accountant and Commission staff engineers. The following tabulation summarizes the earnings data contained in said Exhibits.

SUMMARY OF EARNINGS

Item	Year 1963:		Year 1965 Estimated			
	Present Rates		Present Rates		Proposed Rates	
	Per Co.	Per Staff	Per Co.	Per Staff	Per Co.	Per Staff
	Ex. D	Ex. D	Ex. #7	Ex. D	Ex. #7	Ex. #7
Operating Revenues	\$ 90,686	\$ 113,997	\$115,900	\$ 213,754	\$201,600	
Operating Expenses	117,956	108,600	92,200	108,600	92,700	
Depreciation	21,452	29,345	22,470	29,390	22,470	
Taxes	11,522	12,300	13,850	16,965	25,960	
Subtotal	150,930	150,245	128,520	154,955	141,130	
Net Oper. Revenues	(60,244)	(36,248)	(12,620)	58,799	60,470	
Rate Base	687,800	1,163,596	758,730	1,163,596	758,730	
Rate of Return	-	-	-	5.1%	8.0%	

         Red Figure

The principal difference in estimates of operating revenues for the test year 1965 at proposed rates is that applicant included, as revenue, \$15,000 of a payment by its parent in consideration of applicant's maintenance and operation of backup facilities in the North Shore Area, a residential and recreational area, including a golf course, subdivisions and other facilities being developed by the parent. Exhibit No. 4 is a proposed agreement regarding water facilities dated May 11, 1964, setting forth the terms of such payment. Staff, because of the saturation adjustment which it utilized in its recommended rate base, did not include this amount in its estimate of revenues.

The principal differences in estimates of operating expenses are attributable to the staff's estimate of 16 per cent unaccounted for water rather than the 50 per cent actual 1963 amount. The use of the lower percentage reduces power purchased costs by about \$5,000 annually. Staff's water treatment expense estimate for the year 1965 is less than applicant's by about \$2,300 because staff included the proposed filter plants on the basis of normal full year's operation for the test year. Staff's transmission and distribution expense estimate for the year 1965 is \$700 less than applicant's because staff estimated a reduction in future maintenance expense due to the distribution main replacement program in older areas, and staff estimated the number of meters checked under the meter maintenance program at 10 per cent of the total installed meters each year, whereas applicant estimated 200 meters per year. Staff's estimate of administrative and general expenses for the year 1965 is \$9,800 lower than applicant's because staff pro rated

estimated rate case expense over five years, adjusted outside service expense and allocated transportation expense to each major group of operating expenses. Actual administrative and general expenses were \$67,353 in 1963, having increased from \$35,991 in 1962. Staff's 1965 estimate was \$29,700.

Staff was unable to use applicant's recorded utility plant figures because they were unsupported. The staff accountant testified that in view of the lack of invoices or contracts supporting some \$191,066 of recorded capital additions and the lack of explanation and support for operating costs, he was unable to express an opinion as to the reasonableness of the recorded investment in utility plant, or the recorded results of operations. At the first day of hearing in August, applicant furnished data purporting to support the major portion of the \$191,000, but the accuracy of applicant's books of accounts was still questioned by staff, and applicant admitted that its books had not been kept according to the Uniform System of Accounts for Water Utilities prescribed by this Commission. Applicant pledged to bring its books into, and to keep them in, conformance. The staff engineer checked an appraisal, dated January 1, 1963, prepared by applicant's consulting engineer, and adjusted it for rate making purposes. The major adjustment was in the amount of \$40,800 for a temporary 12-inch transmission main installed from the North Shore intake to the Divide reservoir for applicant's parent's use in supplying water to its golf course in Grass Valley. Such adjustment was made because the line is temporary and does not meet minimum construction standards prescribed by General Order No. 103. The record shows that, since Exhibit No. 7

was prepared, applicant has installed a meter on this main and that it is used to deliver untreated water for use on the golf course. Applicant estimated annual revenues from such deliveries of \$12,500.

Staff developed a saturation adjustment factor of 84.2 per cent applicable to six tracts in Arrowhead Woods totaling 1,926 lots, of which staff estimated that 1,621 would be vacant as of December 31, 1965. Said factor was applied to back-up plant costs and accrued depreciation thereon, and to net in-tract plant additions and accrued depreciation thereon, resulting in a net deduction from average rate base for 1965 of \$200,330. The use of this factor is the principal cause of the difference between applicant's and staff's estimated rate bases for the year 1965.

Net additions to utility plant during the year 1964 were estimated by staff in the amount of \$490,330, and average net additions for the year 1965 were estimated in the amount of \$197,500. Reservoirs totaling \$145,930 and pumping equipment totaling \$39,230 are proposed to be added during 1964 and 1965. The California State Health Department has ordered applicant to filter its sources of water supply and the cost of filtration plants at the North and South Shore intakes will be \$160,600.

As a condition to any rate increase authorized, staff recommended that it not become effective until applicant has installed the filtering plants and a minimum of 1,000,000 gallons additional storage capacity in the South Shore area; has taken steps to correct low pressure conditions in Tracts Nos. 63 and 70 through 75, and Tract R, and any other low pressure conditions; has submitted a schedule of proposed main replacements to be made during 1964 and 1965, including estimated costs and completion dates; and has installed a suitable measuring device to determine production from the

North Shore intake. Applicant objected to the condition relating to correction of all low pressure conditions on the grounds that it would unreasonably delay the rate relief sought. Customers urged that correction of low pressure conditions be assured.

Applicant has no filed tariff for public fire hydrant service but charges \$12 per year for hydrants connected to under 6-inch mains and \$24 per year for hydrants connected to 6-inch and larger mains. Staff recommended that applicant be directed to file a public fire hydrant tariff incorporating its present schedule of annual charges.

The record shows that applicant's former parent loaned applicant a net amount of \$361,735 and applicant's present parent loaned it a net amount of \$363,025 during the period January 1, 1949, through December 31, 1963. Each amount was on an open account basis and noninterest bearing and the balances are outstanding. Such amounts were used for capital expenditures including plant construction and to defray operating losses, but the staff accountant testified that it is quite likely that a substantial portion of plant additions during the period should have been financed through main extension agreements with the developer parent.

Applicant's original analysis of its 1965 results of operations under the proposed rates (Exhibit D) indicated a rate of return of 5.1 per cent; the application constituted, therefore, a request for earnings at that level. Applicant has failed to justify earnings at any level higher than 5.1 per cent, notwithstanding the fact that the proposed rates would actually yield for 1965 a rate of return of 8 per cent. The staff made no rate of return recommendation, due largely to the fact that applicant's accounting



records are deficient. Under all the circumstances, and particularly in view of the size of the increases involved, rates will be authorized herein which are designed to produce a rate of return of 5.1 per cent for 1965 operations.

The Commission finds as follows:

1. Although applicant's books and records could not be completely verified, it is clear that applicant is in need of financial relief.

2. Staff estimates of applicant's results of operations for the test year 1965 are reasonable, except that the cost of the temporary main (amounting to \$40,800) should be included in the rate base, since the main is in use, even though it is of a temporary nature and does not meet the construction standards of General Order No. 103.

3. The estimated rate of return of 8 per cent, which would be produced by the rates proposed in the application, is excessive.

4. A substantial portion of applicant's capitalization consists of loans from its parents, without interest, and part of the utility plant added since 1949 was financed with such funds rather than with subdividers' advances pursuant to applicant's filed main extension rule. Applicant has failed fully to support its recorded plant investment and operating costs.

5. A rate of return of 5.1 per cent is reasonable for the test year 1965 in this proceeding. The rates hereinafter authorized will yield a rate of return of 5.1 percent.

6. a. The staff's recommendation that the present bimonthly minimum usage allowance not be reduced is reasonable.

b. The staff's recommendation that applicant should file a public fire hydrant tariff is reasonable.

c. Because the estimates of rate base and operating expenses adopted herein include the installation and operation of the North and South Shore filtration plants, the staff recommendation that any increase in rates not be made effective until such plant additions have been completed is reasonable.

7. The increases in rates and charges authorized herein are justified and they are reasonable. The present rates and charges, insofar as they differ from those herein prescribed, will be unjust and unreasonable upon compliance with the conditions of the following order.

It is concluded that the application should be granted in part and denied in part, and that the applicant should be authorized to file new schedules of rates which will produce estimated operating revenues for the test year 1965 of \$172,400, an increase over the revenues which would be produced by the present rates of \$56,500, or 49 per cent. Of this amount, \$12,500 will be derived from sales of raw water for use on the golf course under a tariff for such service hereinafter authorized.

O R D E R

IT IS ORDERED that:

1. Subject to paragraph 3 of this order, Arrowhead Utility Company is 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 hereto as Appendix A. Such rates shall become effective for service rendered on and after the fourth day following the date of such filing.

2. Within sixty days after the effective date of this order, applicant shall file with the Commission four copies of a comprehensive map drawn to an indicated scale of not more than 500 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 applicant. Such map shall be brought up to date every six months thereafter for a period of two years, and filed with the Commission in quadruplicate.

3. The filing authorized in paragraph 1 of this order shall not be made until after applicant shall have performed the following in an acceptable manner, as evidenced by a supplemental order of the Commission:

- a. Installed and placed in operation the North Shore and South Shore filtering plants,
- b. Installed and placed in operation a minimum of 1,000,000 gallons of additional storage capacity in the South Shore area,
- c. Corrected low pressure conditions in Tract No. 63,
- d. Installed a suitable measuring device at the North Shore intake,
- e. Notified the Commission, in writing, of completion of the foregoing, together with pertinent details thereof, and
- f. Submitted to the Commission, in writing, a schedule of main replacements, with estimated costs and completion dates, to correct low pressure in Tracts Nos. 70 through 75 and Tract R and any other low pressure conditions.

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

Dated at San Francisco, California, this 16<sup>th</sup> day of FEBRUARY, 1965.

Frederick B. Holdcraft  
President

George T. Brewer  
Attorney

William L. Bernard  
Commissioners

APPENDIX A  
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service except untreated water service under Schedule No. 3M. (T)

TERRITORY

Lake Arrowhead and vicinity, San Bernardino County. (T)

RATES

Per Meter  
Per Bi-Monthly  
Period

Quantity Rates:

First	800 cu.ft. or less .....	\$ 7.10	(I)
Next	1,200 cu.ft., per 100 cu.ft. ....	.56	
Over	2,000 cu.ft., per 100 cu.ft. ....	.41	

Minimum Charge:

For	5/8 x 3/4-inch meter .....	\$ 7.10	
For	3/4-inch meter .....	10.00	
For	1-inch meter .....	14.00	
For	1 1/2-inch meter .....	23.00	
For	2-inch meter .....	33.00	
For	3-inch meter .....	55.00	
For	4-inch meter .....	90.00	
For	6-inch meter .....	170.00	(I)

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

SPECIAL CONDITION

Bills will be rendered bimonthly and service furnished only on a continuous basis, with a minimum service period of twelve consecutive months in each year with an annual minimum charge of \$42.60 for 5/8 x 3/4-inch meters which shall be billed on a bimonthly basis. Annual minimum charges for meter sizes larger than 5/8 x 3/4-inch will be at the rate of six times the bimonthly minimum rate applicable to the meter size involved. (I)

APPENDIX A

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Schedule No. 3M

METERED UNTREATED WATER SERVICE

APPLICABILITY

Applicable to all metered, untreated water service.

TERRITORY

Lake Arrowhead and vicinity, San Bernardino County.

RATES

	<u>PER YEAR</u>
First 100 Acre-Foot or Less .....	\$5,000.00
Over 100 Acre-Foot, per Acre Foot .....	50.00

SPECIAL CONDITIONS

1. Each customer when desiring service shall notify the Company at least 24 hours in advance, indicating the date and hour of commencement of such service.
2. A monthly charge of \$416.67, one-twelfth of the initial charge per year, will be due and payable on the first day of each month. Charges for deliveries in excess of 100 acre-feet during the yearly period will be monthly.
3. Each customer served under this schedule will notify the Company, in writing, by March 15 of each year of his program for irrigating during the coming season.

APPENDIX A

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized or incorporated fire districts or other political subdivisions of the State.

TERRITORY

Lake Arrowhead and vicinity, San Bernardino County.

RATE

	<u>Per Year</u>
For each hydrant on six-inch or larger main .....	\$4.00
For each hydrant on smaller than six-inch main.....	2.00

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.
2. Relocation of any hydrant shall be at the expense of the party requesting relocation.
3. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.