

ORIGINALDecision No. 69773

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

IN THE MATTER OF THE APPLICATION)
 OF DONNER LAKE UTILITY COMPANY,)
 a California corporation, for)
 authority to increase rates for)
 water service.)

Application No. 47075
 (Filed October 29, 1964)

John M. Barry, for applicant.
Bess M. Reid, for East End Property Owners, protestant.
William E. Von Tagen, for Donner Lake Property Owners
 Association, protestant.
John D. Reader, for the Commission staff.

O P I N I O NProceeding

This application was heard before Examiner Gillanders on May 27 and 28, 1965 at Donner Lake. It was submitted on June 23, 1965, upon the filing of the hearing transcript. Copies of the application and notice of hearing were served in accordance with the Commission's procedural rules.

Applicant presented one exhibit and testimony by one witness in support of its request for authority to increase its rates and charges for water service at Donner Lake. Two witnesses from the Commission staff presented the results of their independent studies and investigation of applicant's operation.

Representatives of two property owner groups appeared as protestants and one representative testified to the quality of the water and other service matters. The assistant health officer for the eastern end of Nevada County, who is also vice president of the board of directors of Donner Lake Fire Department, testified as to the purity of the water and to the fire fighting requirements of the fire department.

The Commission has received approximately 150 letters from customers of the utility protesting the proposed rate increase mainly because water service is required for only a few weeks or weekends of the year.

System and Service Area

Applicant furnishes water service to approximately 521 customers at Donner Lake located in Nevada and Placer Counties. Water is obtained either from a spring located on the north side of the lake or by pumping directly from the lake. There are two pressure zones in the service area. Water is delivered into tanks, on opposite sides of the lake, which provide service to most of the customers by gravity. However, approximately 200 customers are served from two additional tanks into which water is boosted from the main distribution system. The total storage capacity of the system is approximately 375,000 gallons.

Rates

Applicant's present rates became effective in January, 1961. They consist of schedules for annual general metered service and annual general flat rate service. Applicant proposes that the present annual flat rate charge of \$60 be increased to \$90 and that the present monthly minimum charge for a one-inch meter, which includes usage of 800 cubic feet, be increased from \$5 to \$7.50 per month or an annual charge of \$90 per year. The same percentage increase is proposed for all customers.

The Commission staff, in Exhibit 3, recommended that the present annual flat rate charge of \$60 be increased to \$81 and that the present monthly minimum charge for a one-inch meter, which includes usage of 800 cubic feet, be increased from \$5 to \$7 per month or an annual minimum charge of \$84. In addition, the staff

recommended a seasonal residential flat rate service of \$70 for the summer season April 1, through November 30.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in the following tabulation from the staff's Exhibit 3 and from applicant's Exhibit F attached to the application, are the estimated results of operation for the year 1964, under present water rates and those proposed by applicant.

ESTIMATED RESULTS OF OPERATION, YEAR 1964

	<u>Present Rates</u>		<u>Proposed Rates</u>	
	Applicant	CPUC Staff	Applicant	CPUC Staff
Operating Revenues	\$ 33,000	\$ 33,760	\$ 49,500	\$ 50,650
<u>Deductions</u>				
Operating Expense	26,505	20,590	26,505	20,710
Depreciation Expense	8,860	6,730	8,860	6,730
Taxes				
Other Than Income	3,500	2,700	3,500	2,700
On Income	-	100	2,500	3,160
Total Taxes	<u>3,500</u>	<u>2,800</u>	<u>6,000</u>	<u>5,860</u>
Working Capital	1,000	-	1,000	-
Total Deductions	<u>39,865</u>	<u>30,120</u>	<u>42,365</u>	<u>33,300</u>
Net Revenue	(6,865)	3,640	7,135	17,360
Depreciated Rate Base	274,256	182,750	274,256	182,750
Rate of Return	Loss	2.0%	2.6%	9.5%

(Red Figure)

In addition to its estimates of 1964 results of operation, the staff estimated that 1965 results of operation would produce a rate of return of 2.3 percent at present rates and a rate of return of 10.2 percent at rates proposed by applicant.

Issues

The following are issues in this proceeding:

1. Seasonal vs. annual rate schedules.
2. Reasonableness of the estimates of operating revenues, expenses, including taxes and depreciation, and rate base.

Rate Schedules

The record shows that the company began its certificated operations in 1955 and that its initial tariff schedules provided for a seasonal rate from April 1 through November 30 for each single family residence.

Early in 1960, by Application No. 41957, the company requested authority to eliminate its seasonal rate and to inaugurate an annual minimum charge of \$72 per connection. By Decision No. 60952, dated October 25, 1960, the Commission authorized an annual minimum charge of \$60 and ordered the company to improve its service and facilities. The record reveals that the company added \$199,684.80 to its plant accounts in the period 1960 to 1964, \$35,730.67 of which were financed by advances for construction. While most of the above expenditures were for normal growth, it is clear that the company has complied with the requirements for improvement of its service and facilities and its witness testified that the system is now fully winterized.

The staff engineering witness testified that he believed seasonal service should be established because of the severe winter conditions at Donner Lake as compared to the seasonal service in other parts of the state.

The witness for the fire department testified that the necessity for fire protection continues year round.

The record reveals that approximately 180 people use their premises year round or some time during the winter and that a proposal is presently before the Board of Supervisors of Nevada County for the formation of a road improvement district in the west area to hard surface the roads and keep them open all year.

We find that applicant is entitled to an opportunity to earn a reasonable return on its reasonable investment after allowing for expenses that are not seasonal but annual, and therefore we will authorize annual rate schedules.

Operating Revenues

The 1964 revenue estimates of the staff and applicant differ mainly by the staff's inclusion of revenue from six customers who receive free water service in exchange for water rights and services provided. During the proceeding, it became apparent that some customers had more than one service connection and that estimates of revenue based on customers could be in error. The record shows that as of May 27, 1965 the actual customers were 521; annual service connections were 532; metered connections were 32; free connections were six; and that there were 34 inactive connections.

We will adopt the staff estimate of revenues corrected for connections based on the actual connection count described above.

Operating Revenue Deductions

The principal differences between the 1964 operating expense estimates of the staff and applicant are in the items of payroll expense and depreciation expense.

The company has four employees. Two are stationed at the Reno office and two are stationed at Donner Lake. The Reno office employees are paid a total of \$3,600 per year while the superintendent who is stationed at Donner Lake receives \$450 per month, his helper being paid \$350 per month for a total of \$9,600 per year. Except for emergencies, the company believes that it can continue to operate with these four employees, but that it cannot operate with any less in number.

The staff estimate of \$8,490 for salaries was based on a study of salaries and outside services of utilities located throughout California which were considered to be of similar size and operating characteristics. In essence, the staff recommendation is that the

company employ only one maintenance man at Donner Lake.

The company's testimony regarding the duties and requirements of its maintenance employees, especially during the winter season, is persuasive and in view of our adoption of annual rates we find the amount of \$13,200 to be a reasonable salary allowance.

The staff's estimate of depreciation expense is lower than the company's mainly due to the rate base saturation adjustment proposed by the staff. The staff's adjustment is reasonable and its estimate of depreciation expense will be adopted.

We will include in our adopted results the other staff estimates not related to salaries or depreciation expense.

Rate Base

The rate base estimated by the staff is lower than estimated by applicant due to the staff's exclusion of a working cash allowance, the exclusion of the extra cost of overbuilt plant, the deduction of the full balance of advances for construction and other minor accounting adjustments.

Except for the staff adjustment of \$1,050 for a portion of a roadway, the staff's rate base adjustments appear reasonable for the purpose of this proceeding and will be adopted herein. This, however, does not preclude applicant in future rate proceedings from presenting additional data on the presently overbuilt plant and on the status of the advances for construction account.

Adopted Results

The staff testified that a fair rate of return on the staff's rate base would be 6.5 percent. We will adopt a rate of return of 6.5 percent in this proceeding as reasonable.

We find that the estimates under present and authorized rates as set forth below of operating revenues, expenses, including taxes and depreciation, and rate base for the year 1964 reasonably

represent the results of applicant's operations and are hereby adopted for the purposes of this proceeding.

ADOPTED SUMMARY OF EARNINGS
YEAR 1964

<u>Item</u>	<u>Present Rates</u>	<u>Authorized Rates</u>
Operating Revenue	\$34,720	\$47,460
<u>Deductions</u>		
Operating Expense	24,420	24,500
Depreciation Expense	6,770	6,770
Taxes Other Than Income	2,900	2,900
Taxes on Income	100	1,240
Total Deductions	<u>34,190</u>	<u>35,410</u>
Net Revenue	530	12,050
Depreciated Rate Base	185,450	185,450
Rate of Return	0.3%	6.5%

Findings

Upon consideration of the evidence the Commission finds that:

1. The foregoing adopted rate of return, operating revenues, expenses, including taxes and depreciation, and rate base, are reasonable for the purpose of prescribing rates.
2. Applicant is earning less than a reasonable rate of return and increased rates should be authorized.
3. The increases in rates and charges authorized herein are reasonable, and the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

We conclude that applicant's request for authority to increase its rates should in part be granted as provided in the following order.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Donner Lake Utility Company is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be December 1, 1965, or four days after the date of filing, whichever is later. The revised schedules shall apply only to service rendered on and after the effective date hereof.

2. Within ninety days after the effective date of this order, applicant shall file with the Commission two copies of the system map required by paragraph 1.10.a of General Order No. 103.

3. For the year 1965, applicant shall apply the depreciation rates set forth in Table No. 1 of Exhibit 3. Until review indicates otherwise, applicant shall continue to use these rates. Applicant shall review its depreciation rates at intervals of three years or whenever major changes in depreciable plant occur. Any revised depreciation rates shall be determined by (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant, (2) dividing the result by the estimated remaining life of the plant, and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

4. Applicant shall adjust its books of account to reflect all of the staff adjustments to the plant and reserve for depreciation accounts except for the item of \$1,050 for land (supra) as set forth in the tabulation, "Summary of Plant and Rate Base", on page 4 of

Exhibit 3. Applicant shall submit to the Commission a copy of the journal entry accomplishing these adjustments within sixty days after the effective date of this order.

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

Dated at San Francisco, California, this 13th day of OCTOBER, 1965.

Frederick B. Holbrook
President
George H. Brown
Attorney
William T. Brown

Commissioners

Commissioner Peter E. Mitchell, 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

Donner Lake and vicinity, Nevada and Placer Counties.

RATES

Monthly Quantity Rates:		<u>Per Meter</u> <u>Per Month</u>
First	800 cu.ft. or less	\$ 6.75
Next	500 cu.ft., per 100 cu.ft.34
Next	2,700 cu.ft., per 100 cu.ft.27
Next	4,000 cu.ft., per 100 cu.ft.21
Over	8,000 cu.ft., per 100 cu.ft.15

Annual Minimum Charge:		<u>Per Meter</u> <u>Per Year</u>
For	1-inch meter	\$ 81.00
For	1½-inch meter	100.00
For	2-inch meter	123.00

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

(Continued)

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

SPECIAL CONDITIONS (Continued)

charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods 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. 2A

ANNUAL GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Donner Lake and vicinity, Nevada and Placer Counties.

RATES

	<u>Per Service Connection Per Year</u>
1. For a single-family residential unit, including premises	\$ 81.00
2. For each hotel, apartment, or motel, including first room or unit	81.00
a. For each additional room or unit	41.00

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 or the customer 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.

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Schedule No. 2A

ANNUAL GENERAL 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.