

**ORIGINAL**

Decision No. 70234

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GOLCONDA UTILITIES COMPANY, a corporation, for itself and as operator of HINKLEY VALLEY WATER COMPANY, for emergency authority to establish new rates.

Application No. 47259  
(Filed January 15, 1965)

Investigation on the Commission's own motion into the operations, rates, rules, tariffs, contracts, practices, equipment, facilities and service of GOLCONDA UTILITIES COMPANY, a corporation.

Case No. 8166  
(Filed April 28, 1965)

W. Paul Payne, for Golconda Utilities Company, applicant in Application No. 47259 and respondent in Case No. 8166.

Hector Anninos, Chester O. Newman and Raymond E. Heytens, for the Commission staff.

O P I N I O N

In Application No. 47259, Golconda Utilities Company (GUC) seeks authority to increase its rates for water service in its various service areas in Inyo, San Bernardino and San Diego Counties. Case No. 8166 is an investigation on the Commission's own motion into the operations, rates, rules, tariffs, contracts, practices, equipment, facilities and service of GUC.

Public hearing on the Keeler phase of these proceedings was held before Examiner Catey in Keeler on July 26 and 27, 1965. A staff report, Exhibit No. 11 in Application No. 47259, was introduced at Keeler but included information relating to GUC's Ersul Tariff Area in addition to its Keeler Tariff Area. The parties agreed that a portion of the hearing on the Ersul phase of these proceedings would be reserved for completion of GUC's

cross-examination of the staff on the Keeler portion of Exhibit No. 11. That adjourned hearing was held before Examiner Catey in San Bernardino on September 15 and 16, 1965. The Keeler phase of these proceedings was submitted on September 16, 1965.

Testimony on behalf of GUC was presented by its president. The Commission staff presentation was made by two staff engineers and a staff accountant. Four customers testified regarding their objections to the proposed rate increase and regarding service deficiencies.

#### Service Area and Water System

GUC's Keeler Tariff Area consists of the unincorporated community of Keeler, in Inyo County. The water system serves 29 customers and three fire hydrants from one artesian well, equipped with a five-horsepower, pressure-controlled pump. The distribution system consists of 2,000 feet of new 4-inch and 6-inch asbestos-cement pipe and 2,000 feet of 1-1/2-inch and 2-inch bare steel mains which were installed in 1917.

#### Rates

GUC's present rates for the Keeler Tariff Area were established on an interim basis, pending final disposition of these proceedings, by Decision No. 68981, dated April 28, 1965, in Application No. 47259. They consist of schedules for general metered service and general flat rate service.

The following Table I shows a comparison of rates in effect prior to the interim increase, the rates now in effect, the rates proposed by GUC in Exhibit No. 3 attached to the pleading, GUC's revised proposed rates set forth in Exhibit No. 17, and the rates authorized herein:

TABLE I  
COMPARISON OF RATES

<u>Item</u>	<u>Prior</u>	<u>Interim</u>	<u>Proposed</u>		<u>Authorized Herein</u>
			<u>Original</u>	<u>Revised</u>	
<u>General Metered Service</u>					
<u>Monthly Quantity Rates</u>					
First 1,000 c.f. or less .....	\$ 3.50	\$ 4.20	\$10.00	\$10.00	\$ 5.50
Next 4,000 c.f., per 100 c.f. ....	.30	.36	.80	.80	.40
Over 5,000 c.f., per 100 c.f. ....	.20	.24	.55	.55	.25
<u>Monthly Minimum Charges</u>					
For 5/8x3/4-inch meter	3.50	4.20	*	*	5.50
For 3/4-inch meter	5.00	6.00	13.25	13.25	5.50
For 1-inch meter	7.50	9.00	20.00	20.00	10.00
For 1-1/2-inch meter	15.00	18.00	40.00	40.00	20.00
For 2-inch meter	25.00	30.00	66.00	66.00	30.00
<u>Monthly Flat Rates</u>					
1-Family Residence	4.00	4.80	10.60	10.60	6.00
Each Addl. 1-Family Unit .....	2.25	2.70	6.00	6.00	3.00
Each Service Station, Grocery, Barber Shop, Drug Store .....	5.00	6.00	13.25	*	*
Each Restaurant or Bar	7.00	8.40	18.55	*	*
Each School	*	6.00	*	10.60	6.00
Sierra Talc Co.	10.00	12.00	26.50	*	*

\* No provision made for this service.

The staff points out in Exhibit No. 11 that the General Flat Rate Service schedule is obsolete because the community now has no commercial establishments except for a small service station which receives metered water service. GUC's revised proposed rates presented in Exhibit No. 17 would restrict flat rate service to residential use and use by the Keeler School building, now converted to general community purposes. We find that such restriction is reasonable.

Customer Complaints

The principal customer complaints set forth in Exhibit No. 11 and voiced by public witnesses at the hearing in Keeler relate to: the relatively high level of GUC's water rates, causing hardship on customers who are retired or otherwise in a low income bracket; excessive estimates by GUC of cost of main extensions subject to customers' advances for construction; unreasonable delay by GUC in replacing a temporary above-ground service pipe; refusal of GUC to extend service to new property; abandonment of mains by GUC when homes have been temporarily vacant; installation of a meter at GUC's main, rather than at customer's property line; flooding of customers' property during development by GUC of its new well and after faulty installation of a meter.

Many of the complaints relate to isolated past incidents for which no specific relief is requested. These incidents are indicative, however, of insufficient attention by the utility's management to its public responsibilities and public relations in Keeler. The appropriate level of rates, future extensions of mains, abandonment of mains, replacement of temporary service pipes, and relocation of improperly installed service connections or meters will be dealt with in this decision.

Case No. 8166

One of the items specifically covered by the order instituting investigation in Case No. 8166 is the possibility that GUC may have charged for service at rates other than those set forth in its filed tariffs. In Exhibit No. 11, the Commission staff sets forth some possible misapplication of rates by GUC in its Keeler Tariff Area:

1. GUC reads meters monthly in cubic feet, calculates bills on the basis of those readings, but rounds the result to the nearest ten cents. GUC's method of rounding could accumulate minor billing errors and, although restating of past bills is not warranted by the relatively insignificant potential correction, the order herein will direct GUC to discontinue this practice. If GUC wishes to simplify its billing, the reading of meters to the nearest 10 or 100 cubic feet will accomplish the desired result without cumulative error.

2. It is GUC's practice in its Keeler System to install no meters smaller than 3/4-inch, even though its tariffs provide for a 5/8 x 3/4-inch meter. This policy is based upon the utility's interpretation of the requirements of the plumbing code adopted by Inyo County. The record herein is inconclusive as to the County's plumbing requirements and the extent they may be applicable to GUC. The Commission staff report, Exhibit No. 11, states that 5/8 x 3/4-inch meters would be adequate for the seven customers which GUC supplies through 3/4-inch meters. Under these circumstances, we find that it is reasonable to establish, for future service, the same minimum charge for both sizes of meter, as prescribed by the rate schedules authorized herein.

3. GUC had been charging an unauthorized flat rate of \$5.00 per month for the Keeler School building, which is now used as a community building. An interim rate of \$6.00 was authorized by Decision No. 69341, dated June 29, 1965, in Application No. 47259. With the

probable future limited use of the school building, we find that the flat rate for that service should still be \$6.00 per month, the same as for future residential service. The order herein so provides.

Another item specifically set forth in the aforementioned order instituting investigation is the possible failure of GUC to comply with specific orders and General Orders of this Commission. Exhibit No. 11 shows several such instances:

1. The staff's field investigation disclosed water pressures in Keeler ranging from 10 to 20 psi, which range is below the minimum set forth in General Order No. 103. The customers apparently have adapted themselves to the inadequate pressures. Furthermore, an increase to normal pressures could cause leaks in their plumbing as well as in GUC's older pipes. We find that it would not be in the public interest to require GUC to maintain higher water pressures at this time.

2. About half of the Keeler distribution mains were installed over 40 years ago, are in poor condition, and do not meet the minimum size requirements of General Order No. 103. GUC has not yet paid for the improvements installed during the past two years, however, and the staff feels that GUC's financial condition is such that further expenditures for main replacements at this time are inadvisable. We concur. Even if GUC were able to finance the complete replacement of all of the old mains at this time, the water rates which would be required to provide a reasonable return on the increased investment could impose a financial hardship on the Keeler customers.

3. GUC serves one customer (Van Hoose) through a plastic hose connected to another customer's faucet. GUC also serves a customer (Mullis) through a meter installed at the distribution main across the street from the customer's property. General Order No. 103 provides, among other things, that the point of connection of a utility's service pipe with a customer's pipe be at a convenient place between the customer's property line and the curb, or inside the customer's property line. The order herein directs GUC to install service pipes for the two customers (Van Hoose and Mullis) in accordance with General Order No. 103.

4. GUC over the past few years, has abandoned several hundred feet of pipe on Railroad Avenue in Keeler. Although the services formerly supplied by the abandoned main were inactive at the time of abandonment, homes were still located on the lots which, in at least one instance, later required water service. GUC considered the request for renewal of service to be a request for new service, which would require an advance for construction of a new main. General Order No. 96-A provides, among other things, that a utility may not withdraw from public service in any portion of its territory unless authority for such withdrawal has been obtained from the Commission. The order herein prohibits the requirement of customer advances to replace mains already abandoned without authorization and prohibits abandonment by GUC of any additional mains in Keeler without providing replacement mains at its own expense or obtaining authorization of this Commission for such abandonment.

5. When GUC was authorized to acquire the Keeler System, and others, by Decision No. 67347, dated June 10, 1964, in Application No. 45772, ordering paragraph 11 of the decision directed GUC to establish and maintain records which will permit determination of plant accounting information for each separate water system based upon original cost, estimated if not known, and to file an inventory and appraisal of such plant costs and a reserve requirement study for each system, both prepared by a qualified engineer. Exhibit No. 11 herein states that the inventories and appraisals have not been prepared and that, because of lack of accounting records and supporting data, the staff accountant could not ascertain nor verify the historical cost of utility plant. Were it not for GUC's precarious financial condition, we would be inclined to deny any rate relief whatsoever until GUC presents the essential plant information in compliance with ordering paragraph 11 of Decision No. 67347. In the absence of this information, the staff adjusted the recorded 1964 year-end plant balance of \$16,743 to remove \$5,277 of excess costs, based largely upon the staff's past experience as to reasonable plant costs for other utilities. The staff adjusted plant balances and estimate of rate base are adopted herein.

A third subject covered by the order instituting investigation relates to unauthorized issuance by GUC of evidence of long-term indebtedness. Exhibit No. 11 shows:



1. GUC has entered into equipment purchase contracts for office equipment and a truck, which contracts are all for terms exceeding one year. GUC did not request nor receive authorization for this long-term debt. We hereby take official notice of the filing by GUC on November 12, 1965 of Case No. 8303, in which it alleges, among other things, that one of the items of office equipment and the truck have been repossessed by the creditor involved. Although at this time no punitive action is being taken by this Commission in regard to the past issuance of unauthorized evidences of indebtedness, GUC and its officers are reminded that their actions could subject the corporation to heavy penalties under the Public Utilities Code.

2. GUC has issued a number of demand notes. Section 823 of the Public Utilities Code permits the issuance of notes payable not more than 12 months after the date of issuance, without consent of the Commission. Golconda International Corporation (GIC), parent of GUC, has acquired the demand notes at a discount from the holders thereof and has exchanged some of them at face value for common stock of GUC. Any benefits from discounting of the notes accrue to GIC rather than GUC. In one such transaction, GIC acquired notes aggregating \$79,759 face value for a cash payment of \$10. Commission

action in connection with the past transactions will be considered in the phase of Case No. 8166 relating to the district involved.

Results of Operation

Witnesses for GUC and the Commission staff have analyzed and estimated GUC's Keeler Tariff Area operational results. Summarized in Table II, from the staff's Exhibit No. 11 and from Page 2 of Exhibit No. 3 attached to GUC's application, are the estimated results of operation for the test year 1965, under the present interim rates and under the rates proposed by GUC. For comparison, the table shows the results of operation, modified as discussed hereinafter, at the present interim rates and at the rates authorized herein.

TABLE II  
ESTIMATED RESULTS OF OPERATION  
TEST YEAR 1965\*

<u>Item</u>	<u>Staff</u>	<u>GUC*</u>	<u>Modified</u>
<u>Present Interim Rates</u>			
Operating Revenues	\$ 1,760	-	\$ 1,760
<u>Deductions</u>			
Keeler Direct Operating Expense	540	-	540
Genl. Office Allocated Oper. Exp.	340	-	340
Depreciation	340	-	340
Taxes Other Than on Income	260	-	260
Income Taxes	80	-	0
Total	\$ 1,560	-	\$ 1,480
Net Revenue	200	-	280
Rate Base	10,300	-	10,300
Rate of Return	1.9%	-	2.7%
<u>Rates Proposed by GUC</u>			
Operating Revenues	\$ 3,920	\$ 4,081	\$ 3,920
<u>Deductions</u>			
Keeler Direct Operating Expense	540	560#	540
Genl. Office Allocated Oper. Exp.	340	890#	340
Depreciation	340	470	340
Taxes Other Than on Income	300	275	300
Income Taxes	630	585	530
Total	\$ 2,150	\$ 2,780	\$ 2,050
Net Revenue	1,770	1,301	1,870
Rate Base	10,300	19,861	10,300
Rate of Return	17.2%	6.5%	18.2%
<u>Rates Authorized Herein</u>			
Operating Revenues	\$ -	-	\$ 2,200
<u>Deductions</u>			
Keeler Direct Operating Expense	-	-	540
Genl. Office Allocated Oper. Exp.	-	-	340
Depreciation	-	-	340
Taxes Other Than on Income	-	-	270
Income Taxes	-	-	90
Total	\$ -	-	\$ 1,580
Net Revenue	-	-	620
Rate Base	-	-	10,300
Rate of Return	-	-	6.0%

\* 12-month period ended 10/31/65 used by GUC in its estimates.

# \$1,450 divided between direct and allocated as in Exhibit No. 16.

From Table II it can be seen that applicant's requested rates would result in an increase of 123 percent in operating revenues over those produced by the present interim rates. The rates authorized herein will produce a 25 percent increase over the present interim rates.

The staff's estimates of revenues under proposed rates are somewhat lower than those of GUC, primarily due to the staff's assumption of fewer metered services. This assumption appears valid and the staff's basis for estimating revenues is adopted herein. Neither GUC nor the staff presented an estimate of probable water consumption by Sierra Talc Company upon its being provided metered service. The relative levels of historical flat rates for that small industrial user and for flat rate residential use indicate that the industrial use should be about three times the average residential use. That relationship has been assumed herein.

The staff's expense estimates are lower than those of GUC, primarily due to the staff's lower estimate of a reasonable allocation of expenses incurred at GUC's general office. From that office, GUC's president manages various water systems in Inyo, San Bernardino and San Diego Counties. Some of these systems were acquired by GUC with this Commission's authorization; the acquisition of one of the systems operated until recently by GUC had been authorized but never consummated; other systems are being operated without authorization. During this unsettled period of GUC's operations, its recorded expenses are not indicative of proper future operations. The staff expense estimates, based upon reasonable expenses of other comparable utilities, are adopted herein.

The staff's depreciation estimate is lower than that of GUC, primarily due to exclusion by the staff of certain excess cost of plant recorded by GUC. The staff depreciation estimate is adopted herein.

The staff's calculation of income taxes does not include any tax deduction for interest. For rate-making purposes, it has long been this Commission's practice to allocate total company interest deductions to each district of a multi-district company in proportion to the relative amount of net plant or rate base in each district. GUC's balance sheet as of December 31, 1964 (Table 2-A of Exhibit No. 11) shows common stock equity of \$40,256, long-term debt of \$123,282, notes payable of \$35,797, and total liabilities and other credits of \$238,670. In addition to interest on notes, GUC pays interest on some current liabilities such as property taxes because it has permitted them to become delinquent. It reasonably may be assumed, however, that a normal future capital structure would include not more than 60 percent interest-bearing debt. The income taxes adopted herein reflect the effect of 6 percent interest on 60 percent of GUC's rate base in its Keeler Tariff Area.

As discussed hereinbefore in connection with GUC's failure to maintain records and prepare inventories and appraisals which would permit determination of original cost, the staff estimate of rate base is adopted herein.

In Exhibit No. 11, the staff recommends that GUC be allowed a minimal return for the Keeler system, due to the uneconomic aspects of the overall operation and the abnormal operating characteristics in service areas due to lack of saturation. The staff estimates of expenses, however, have

eliminated most abnormalities by using as a guide the expenses of other utilities. Further, the major plant additions in Keeler were primarily to improve service to existing customers, not to extend into new speculative and uneconomic areas. The propriety of recent plant additions is indicated by the fact that most were in compliance with previous decisions of this Commission. A return of 6 percent on rate base is allowed herein.

Findings and Conclusions

The Commission finds that:

1.a. GUC is in need of additional revenues but the proposed rates set forth in its application are excessive.

b. The adopted estimates, previously summarized and discussed herein, of operating revenues, operating expenses and rate base for the test year 1965 reasonably represent the results of GUC's future operations.

c. The increases in rates and charges authorized herein are justified, the rates and charges authorized herein are reasonable, and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

2. GUC has abandoned certain distribution mains without authorization.

3. GUC has installed two services in Keeler not in accordance with the requirements of General Order No. 103.

4. GUC's rounding of bills to the nearest ten cents is not in accordance with its filed tariffs.

5. Various past issues of demand notes by GUC have led to financial transactions between GUC and its parent corporation which are adverse to the public interest.

The Commission concludes that the Keeler Tariff Area portion of Application No. 47259 should be granted to the extent set forth in the order which follows and that, in connection with the portions of Case No. 8166 directly or indirectly affecting the Keeler Tariff Area, GUC should be required to take certain actions and cease other actions, as set forth in the order.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Golconda Utilities Company (GUC) 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 February 1, 1966, 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 thereof.

2. Effective immediately, GUC shall:

- (a) Not require any advance for construction of any mains to replace others which have been abandoned without authorization of this Commission.
- (b) Not abandon any additional mains without providing replacement mains at its own expense or obtaining authorization by order of this Commission for such abandonment.

3. Within thirty days after the effective date of this order, GUC shall:

- (a) Replace the temporary plastic hose serving the Van Hoose residence in Keeler with a permanent service conforming with the requirements of General Order No. 103.





APPENDIX A  
Page 1 of 2

Schedule No. KE-1

Keeler Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Keeler and vicinity, Inyo County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 1,000 cu.ft. or less .....	\$ 5.50	(I)
Next 4,000 cu.ft., per 100 cu.ft. ....	.40	
Over 5,000 cu.ft., per 100 cu.ft. ....	.25	
Minimum Charge:		
For 5/8 x 3/4-inch meter .....	\$ 5.50	(I)
For 3/4-inch meter .....	5.50	(R)
For 1-inch meter .....	10.00	(I)
For 1½-inch meter .....	20.00	
For 2-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.

APPENDIX A  
Page 2 of 2

Schedule No. KE-2

Keeler Tariff Area

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on a flat rate basis.

TERRITORY

Keeler and vicinity, Inyo County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
1. For a single-family residence or first unit of a multiple residence, including premises .....	\$ 6.00	(I)
a. For each additional residence, residential unit or house trailer located on the premises and served from the same service connection ...	3.00	(I)
2. For each school .....	6.00	

SPECIAL CONDITIONS

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

2. Meters may be installed at option of utility for above classifications, in which event service thereafter will be furnished only on the basis of Schedule No. KE-1, General Metered Service.