

Decision No. 70739

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
GEORGE P. LEONARD, doing business as)
GOLFITO WATER COMPANY under Section)
454 of the Public Utilities Code for)
Authority to Increase Rates for)
Water Service.)

Application No. 47984
(Filed October 21, 1965)

Verner R. Muth, for applicant.
David F. La Hue, for the Commission staff.

O P I N I O N

After due notice, public hearing in this matter was held before Examiner Emerson on February 15, 1966 at Stinson Beach.

George P. Leonard (Golfito Water Company) is a public utility whose operations consist of the collection of water from springs and creeks on the Las Baulinas Ranch and other properties near Stinson Beach, Marin County, and the delivery of water therefrom to Stinson Beach Water Company, his sole customer.

Applicant's present rates are 7-1/2 cents per 100 cubic feet of water delivered during the summer season and 5 cents per 100 cubic feet for the winter season, with an annual minimum charge of \$950. Applicant seeks authority to increase these rates to 16 cents per 100 cubic feet for summer water and to 12 cents per 100 cubic feet for winter water and to increase the minimum charge to \$1,200 per year.

Exhibit C to the application shows that applicant earned a rate of return of 6.29 percent on a rate base of \$11,709 during the year 1964. For the year 1965, this exhibit shows an operating loss. The difference between the two years' operations is almost wholly attributable to applicant having added \$15,000 to rate base as a newly claimed "value" of water rights and approximately \$1,600 to tax

expense. Since applicant's own records and showing indicate a 1964 rate of return (6.29%) within a zone of reasonableness and the evidence discloses no substantial changes in normal operations for the year 1965, applicant's entitlement to a rate increase will stand or fall upon the issue of capitalizing "water rights."

In 1958 applicant purchased 412 acres of unimproved grazing land plus "water rights" to all of the water in Steep Ravine for a lump sum of \$45,000. Values of land and of water rights were not separately stated, even though the water rights are not appurtenant to the land. One of the basic problems thus becomes that of determining those parts of the over-all purchase which are respectively applicable to land and to water rights. In an attempt to do so, applicant employed a land appraiser who is familiar with certain land values in Marin County and of wide knowledge in real estate matters elsewhere in California. His testimony consisted primarily of land value comparisons based upon present market values of lands with and without water. His comparisons showed a range of \$40 to \$150 per acre as the added value of water to lands in the general area of applicant's operations. He concluded that the value of the water rights which applicant purchased amounted to \$15,000 in 1958 and has a present-day value of \$25,000. Applicant testified that the average cost of his 412-acre purchase was \$75 per acre (thus producing a total land cost of \$30,900). He apparently attributes the balance of the purchase price (\$14,100) to the value of the right to divert all of the water in Steep Ravine.

Water for public use in the Stinson Beach area has been in short supply during the summer months and particularly over long weekends or holidays when hundreds of nonresidents descend upon the area for enjoyment of the area's recreational facilities. On occasion, the utility supply has been totally inadequate to meet both permanent and transient demands, and has left householders with insufficient water. On at least one occasion the public beach facilities'

use of water had so overtaxed the supply that the beaches had to be closed to the public as a matter of fire and health safety to the community. The obtaining of additional water has been and is of great concern to the area. Applicant's dedication of Steep Ravine water to public utility use is commendable (it is estimated that such source may be equivalent to one-quarter or more of the total supply) and should materially assist in the alleviation of the critical supply problem. There is no question that Steep Ravine water is of value to the community.

In view of the evidence, the Commission finds that a reasonable value of the water rights in Steep Ravine is \$15,000 for public utility rate-making purposes.

Applicant does not maintain formal books of account for his utility operations. For analyses of operating results, therefore, reliance must be had upon annual reports filed with the Commission and upon adjustments made by the staff. These, when modified to include the \$15,000 for water rights hereinabove found to be reasonable, indicate results of operations, for the year 1965, as follows:

Summary of Results of Operations
Present Rates - Year 1965

Operating Revenues	\$1,700
Operating Expenses	
Before Taxes and Depreciation	400
Taxes	1,530
Depreciation	<u>150</u>
Total Operating Expenses	\$2,080
Net Revenue	(290)
Rate Base (Depreciated)	28,050
Rate of Return	Loss

(red figure)

It is apparent that applicant is in need of and entitled to increased revenues. The Commission finds (1) a rate of return of approximately 6-1/4 percent to be reasonable for this utility operation, thus requiring a net revenue of \$1,750 and a gross revenue of \$4,150; and (2) that the increases in rates and charges hereinafter authorized are justified and that present rates, insofar as they

differ from those authorized herein are for the future unjust and unreasonable.

The Commission concludes that the application should be granted to the extent set forth in the following order.

O R D E R

IT IS ORDERED that George P. Leonard (Golfito Water Company) is authorized to file with this Commission, on or after the effective date of this order and in conformance with the provisions of General Order No. 96-A, the tariff sheet 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 tariff sheet effective for service rendered on and after July 1, 1966.

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

Dated at San Francisco, California, this 24th day of MAY, 1966.

Fredrick B. Hallock
President
John E. [unclear]
George G. [unclear]
[unclear]

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

APPENDIX A

Schedule No. 6

RESALE SERVICE

APPLICABILITY

Applicable to untreated water furnished for resale.

TERRITORY

Stinson Beach and vicinity, Marin County (T)

RATE

	<u>Per Month</u>	
Monthly Quantity Rate:		
For all water delivered, per 100 cu.ft.	\$0.11	(I)
Annual Minimum Charge:	<u>Per Year</u>	
For each customer	\$1,200.00	(I)

The Annual Minimum Charge will entitle the customer to an annual quantity of water which that minimum charge will purchase at the Quantity Rate.

SPECIAL CONDITIONS

1. The charge for water used will be billed monthly at the quantity rate. If the total of such billings for the year is less than the annual minimum charge, the remainder will be billed at the end of each year.
2. The annual minimum charge applies to service during the 12-month period commencing on January 1.
3. Water supplied under this schedule is untreated water and the utility does not represent or guarantee that any water delivered hereunder is potable or of a quality suitable for human consumption.
4. This schedule is available only upon the execution of a contract.