

Decision No. 71096

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
CLEAR LAKE PARK WATER COMPANY under )  
Section 454 of the Public Utilities )  
Code for authority to increase rates )  
for water service rendered in the )  
Town of Clear Lake Park and vicin- )  
ity, Lake County, California. )

Application No. 48158  
Filed December 30, 1965

Brobeck, Phleger & Harrison, by Robert N. Lowry, for applicant.  
Edward J. Prando and J. E. Johnson, for the Commission staff.

O P I N I O N

Applicant Clear Lake Park Water Company seeks authority to increase its rates for water service.

Public hearing was held before Examiner Catey in Clearlake Highlands on May 5, 1966 and in San Francisco on May 26, 1966. Copies of the application had been served and notice of hearing had been mailed to customers and published, in accordance with this Commission's rules of procedure. The matter was submitted on May 26, 1966, subject to receipt of applicant's late-filed Exhibit No. 7-A, which was received on June 10, 1966.

Testimony on behalf of applicant was presented by its treasurer, by its local manager and by two consulting engineers. The Commission staff presentation was made by an engineer and by an accountant. Seven customers and property owners in the area testified regarding their objections to the proposed rate increase.

Service Area and Water System

Applicant's service area consists of a relatively narrow strip of land about seven miles long, bordering the southeast shore

of Clear Lake at Clearlake Park and vicinity, Lake County. It includes the area originally served by applicant, the Burns Valley Water Company area added upon acquisition of the system therein from the former owners, the Manatee County Waterworks District area added upon leasing the district's system, and various extensions of the integrated system into contiguous territory.

Applicant's water supply is obtained from Clear Lake. Water is pumped from two intakes and is treated and filtered at two pump stations. Extensive improvements were made to both stations in 1963.

The treated and filtered water is stored in four tanks having a combined capacity of about 528,000 gallons. Prior to 1963 only a nominal storage capacity had been installed.

The stored water is distributed through some 26 miles of mains ranging in size from 3/4- to 8-inch. There are about 1,170 metered services and no flat rate services.

#### Rates

Applicant now has three different schedules of rates for general metered service. The present rates in the Clearlake Park Tariff Area became effective in September 1963. The present rates in the Manatee District Tariff Area were adopted, unchanged from the rates of Manatee County Waterworks District which formerly served that area, effective in August 1965. The present rates in the Burns Valley District Tariff Area were adopted, unchanged from those of the predecessor utility, effective in May 1965.

Applicant proposes to increase its rates for annual metered service to a uniform level throughout its service area. It proposes to cancel its Burns Valley District Tariff Area rates for seasonal metered service, seasonal residential flat rate service and

annual residential flat rate service. It also requests authority to increase the present Burns Valley District Tariff Area rate of \$1 per hydrant per month for public fire hydrant service to \$4 for all except wharf-type hydrants and to apply the revised rate schedule throughout its service area. Applicant proposes tariffs for private fire sprinkler service and private fire hydrant service, neither of which services was heretofore offered.

The following Table 1 presents a comparison of applicant's present meter rates, those requested by applicant and those authorized herein:

TABLE 1

Comparison of Rates

Item	Per Meter Per Month					
	Clear Lake	Present	Manatee	Burns	Proposed	Authorized Herein
Minimum or service Charge	\$3.30	\$3.00	\$3.00	\$4.70	\$3.90	
First 300 cu.ft., per 100 cu.ft.	.00*	.15	.00*	.00*	.00*	.00*
Next 100 cu.ft., per 100 cu.ft.	.00*	.15	.00*	.00*	.00*	.60
Next 600 cu.ft., per 100 cu.ft.	.44	.15	.40	.63	.63	.60
Next 500 cu.ft., per 100 cu.ft.	.44	.15	.35	.63	.63	.60
Next 500 cu.ft., per 100 cu.ft.	.44	.15	.35	.63	.63	.45
Next 3,000 cu.ft., per 100 cu.ft.	.33	.15	.35	.47	.47	.45
Over 5,000 cu.ft., per 100 cu.ft.	.22	.15	.25	.31	.31	.30

\* Included in minimum annual charge for 5/8 by 3/4-inch meter. A graduated scale of increased minimum charges is provided for larger meters.

Because many of the customers are not year-round residents, the computed average monthly consumption per customer is only about 500 cubic feet in the Clearlake Park Tariff Area, 800 cubic feet in the Manatee District Tariff Area and 400 cubic feet in the Burns Valley District Tariff Area.

Applicant's present tariffs include rates for seasonal (April through September) service in the Burns Valley District

Tariff Area at a lower minimum charge than for annual service. The record shows, however, that the peak demand which determines the required size of facilities occurs during the summer season and most of the depreciation, repairs, maintenance and fixed charges continue year-round.

Applicant's proposed rate for public fire hydrant service provides only for wharf-type and standard barrel-type fire hydrants with steamer connections. Small fire departments may have need for intermediate sizes of hydrant. Indeed, parts of applicant's system may not be able to supply the flows required for steamer hydrants. The rates authorized herein provide for a sliding scale of charges for various sizes and types of hydrants.

Applicant did not present justification for the liability disclaimer provisions of its proposed fire hydrant service schedules which would require the customer to indemnify applicant and save it harmless against claims. The requested disclaimer provisions are not included in the schedules authorized herein.

#### Customer Protests

The Commission staff Exhibit No. 9 states that, since the change in applicant's management and change in ownership of applicant's stock in 1963, applicant has made a determined effort to improve service by the installation of new facilities at a cost of over \$150,000. The effectiveness of that improvement program is indicated by the fact set forth in Exhibit No. 9 that there have been no "informal complaints" received by the Commission since

September 1964, concerning service rendered by applicant. Also, most of the customers who testified have noted the improvement in service.

The principal protests to the proposed rate increase were from customers who have permanent residences elsewhere and use their Clear Lake properties only on weekends and vacations. It is apparent, however, that unless the seasonal and weekend users pay their fair share of fixed charges, the permanent customers will be subsidizing the nonpermanent customers' water bills. The rates authorized herein are designed to spread the overall revenue requirement equitably among all users. The 300 cubic feet per month included in the minimum charge permits a lower minimum charge than would the 400 cubic feet proposed by applicant.

#### Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table 2, from the staff's Exhibit No. 9 and from applicant's Exhibits Nos. 4 and 6, are the estimated results of operation for the test year 1966, under present water rates and those proposed by applicant. For comparison, this table also shows the results of operation, modified as discussed hereinafter, at present rates, at those proposed by applicant, and at those authorized herein.

TABLE 2

Estimated Results of Operation, Test Year 1966

	<u>Staff</u>	<u>Applicant</u>	<u>Modified</u>
<u>At Present Rates</u>			
Operating Revenues	\$ 61,000	\$ 60,000	\$ 61,000
Deductions			
Payroll & Engrg. & Ac. Fees	20,000	25,700	23,950
Maintenance Expense	2,000	3,740	2,000
Chemicals and Supplies	3,000	3,950	3,950
Other Expense excluding Depr. & including Taxes	17,600	18,730	17,600
Depreciation	11,600	11,174	11,800
Subtotal	54,200	63,294	59,300
Income Taxes	100	100	100
Total	54,300	63,394	59,400
Net Revenue	6,700	(3,394)	1,600
Rate Base	279,600	267,097	284,900
Rate of Return	2.4%	loss	0.6%
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	\$ 91,000	\$ 85,750	\$ 91,000
Deductions			
Excluding Income Taxes	54,200	63,294	59,300
Income Taxes	7,500	3,933	4,700
Total	61,700	67,227	64,000
Net Revenue	29,300	18,523	27,000
Rate Base	279,600	267,097	284,900
Rate of Return	10.5%	6.9%	9.5%
<u>At Rates Authorized Herein</u>			
Operating Revenues	\$ -	\$ -	\$ 81,500
Deductions			
Excluding Income Taxes	-	-	59,300
Income Taxes	-	-	2,200
Total	-	-	61,500
Net Revenue	-	-	20,000
Rate Base	-	-	284,900
Rate of Return	-	-	7.0%

(Red Figure)

From Table 2 it can be seen that applicant's requested rates would result in an increase of 49 percent in operating revenues, whereas the rates authorized herein will produce a 34 percent increase. The percentage increases for individual bills will vary, depending upon level of use and location with respect to present tariff areas with different rate levels. With the present interconnected system, where a large proportion of the plant is for production, treatment, boosting, transmission and storage of water for all customers, we find that zone rates are no longer appropriate.

The differences between the revenue estimates of applicant and those of the Commission staff result from two factors. Applicant's 1966 estimates inadvertently gave consideration to only half of the estimated increase in number of customers and gave no consideration to the estimated increase in consumption per customer. The staff's estimates are adopted herein.

The staff's estimate of payroll chargeable to expense was based primarily upon a study of payrolls of other utilities and reflects a reduction in labor costs which could be effected by instituting bimonthly billing for all but a few large customers. The record does not show, however, whether the operations of the utilities used for comparison were necessarily the same as or even similar to those of applicant. Applicant's estimates of payroll and professional and related fees are adopted with modifications for savings in meter readings, customer accounting and billing labor under bimonthly billing. Inasmuch as 60 percent of the bills rendered by applicant are for consumption allowed under the adopted minimum charge, monthly billing is wasteful. Applicant will not be ordered to institute bimonthly billing but the customers will not be penalized for any failure by applicant to reduce costs by revising its billing practices.

Applicant's estimates of maintenance expense appear to include abnormal items which will not normally recur annually. The staff estimate is adopted.

A staff witness testified that, upon review, his estimate of cost of chemicals and supplies appeared low. Applicant's estimate is adopted.

The principal difference between applicant's and the staff's estimates of other expenses (excluding depreciation and income taxes) is the saving in bills and postage which would result from bimonthly billing. The staff estimate is adopted.

The staff's estimate of depreciation expense includes the full-year effect of depreciation on nonrecurring additions during 1966, whereas applicant weighted those additions for only a portion of the test year. The staff estimate is adopted, with minor modification consistent with the modification to rate base for over-accrued depreciation reserve, as discussed hereinafter.

The staff method of computing income taxes, set forth in Exhibit No. 9, is adopted with modification to reflect a higher interest rate on loans. Applicant's treasurer testified that the present 5 percent interest rate will undoubtedly be increased when the notes become due in the near future. In the absence of any definitive figure for probable future interest rates, we have assumed 5-3/4 percent interest on an indebtedness represented by approximately two-thirds of applicant's rate base.

The rate base estimated by the staff is higher than that estimated by applicant because the staff properly included the full-year effect of nonrecurring capital additions during 1966. The staff estimate is adopted with modification as discussed in the succeeding paragraphs.



Depreciation Reserve

Decision No. 65777, dated July 30, 1963, in Application No. 44644, ordered applicant to use the straight-line remaining life depreciation rates developed by the Commission staff in Exhibit No. 1 in that proceeding. The order further directed that those rates be used until a review indicates that they should be revised. Applicant's present management had just taken over operation of the system and inadvertently violated the Commission's order by continuing the predecessor management's excessively high accrual rates.

One of the advantages of the remaining life depreciation method is the elimination of recurring adjustments to depreciation reserves when studies indicate that previous depreciation rates were too high or too low. As one of the results, a utility cannot overstate its depreciation expense over a period of time to disguise high earnings and then duplicate the collection of depreciation expense from the customers by restating the depreciation reserve at the time of a rate proceeding.

In this instance, however, applicant was ordered, not merely authorized, to use specific depreciation rates until other rates are shown to be appropriate. The continued use of previous excessive rates was not based upon any study, was apparently inadvertent, and was apparently without any ulterior motive. We find that, under these particular circumstances, the depreciation reserve and depreciation expense should be determined as though applicant had complied with the previous Commission order. The rate base and depreciation expense adopted herein reflect this finding.

Rate of Return

At the time the Commission staff prepared its recommendations, applicant's parent, Broward Water Supply Co., a Florida corporation, had been able to borrow money at a 5 percent interest rate.

It loaned applicant the funds needed for the improvements to the system, charging the same interest rate. The staff's recommendation that a 6-1/2 percent return on rate base be considered reasonable was based in part upon the then availability at 5 percent loan interest rates.

It is apparent that higher interest rates will prevail at least for the near future. The rates authorized herein are designed to produce a 7 percent return on rate base for the test year 1966. If applicant is able to borrow at an average long-term interest rate of 5-3/4 percent (the interest rate assumed herein for income tax calculations) it will realize the same return on equity as though borrowed money were at 5 percent and return on rate base were 6-1/2 percent.

#### Findings and Conclusions

The Commission finds that:

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

b. The adopted estimates, previously summarized and discussed herein, of operating revenues, operating expenses and rate base for the test year 1966 reasonably represent the results of applicant's future operations.

c. A rate of return of 7 percent on applicant's rate base is reasonable.

d. 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. The straight-line remaining life depreciation rates set forth in Exhibit No. 10 are reasonable for applicant's plant.

3. Timely completion by applicant of its planned additions is essential to the continued improvement in service.

4. The 1965 year-end staff adjusted balances of balance sheet items set forth in Exhibit No. 9, modified to reflect the corrected depreciation reserve shown in Exhibit No. 10, are the proper amounts to be shown on applicant's books.

5. Applicant has not established an adequate work order system, nor has it always maintained its accounting records in California.

The Commission concludes that the application should be granted to the extent set forth in the order which follows:

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant Clear Lake Park Water Company is authorized to file the revised rate schedules attached to this order as Appendix A. Concurrently, applicant shall cancel its presently effective rates. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be September 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. For the year 1966, applicant shall apply the depreciation rates set forth in Exhibit No. 10. Until review indicates otherwise, applicant shall continue to use these rates. Applicant shall review its depreciation rates at intervals of five years and whenever a major change in depreciable plant occurs. 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 the plant. The result of each review shall be submitted promptly to the Commission.

3. On or before March 1, 1967, applicant shall file with this Commission a written report as of December 31, 1966, comparing the items of proposed additions set forth in Exhibit D to the application with the plant additions actually made, together with a statement showing the costs of the additions.

4. Before filing its annual report for the year 1966, applicant shall adjust its books to reflect the staff adjusted balances for utility plant, reserve for depreciation, other physical property, capital surplus, earned surplus and contributions in aid of construction as of December 31, 1965, as set forth in Section II of Exhibit No. 9, modified to reflect the corrected depreciation reserve set forth in Column 3 of Exhibit No. 10.

5. On or before January 1, 1967, applicant shall install and thereafter maintain a work order system to account for plant additions and retirements and, unless and until otherwise authorized by this Commission, shall henceforth maintain its accounting records in California.

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

Dated at San Francisco, California, this 9th day of AUGUST, 1966.

Commissioner Frederick B. Holoboff, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner A. W. Gatov, being necessarily absent, did not participate in the disposition of this proceeding.

[Signature]  
President  
[Signature]  
[Signature]  
Commissioners

APPENDIX A  
Page 1 of 5

## Schedule No. 1-A

ANNUAL GENERAL METERED SERVICEAPPLICABILITY

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

TERRITORY

Clearlake Park and vicinity, Lake County.

RATES

	<u>Per Meter Per Month</u>
Monthly Quantity Rates:	
First 300 cu.ft. or less .....	\$ 3.90
Next 1,200 cu.ft., per 100 cu.ft. ....	.60
Next 3,500 cu.ft., per 100 cu.ft. ....	.45
Over 5,000 cu.ft., per 100 cu.ft. ....	.30
Annual Minimum Charge:	<u>Per Meter Per Year</u>
For 5/8 x 3/4-inch meter .....	\$ 46.80
For 3/4-inch meter .....	60.00
For 1-inch meter .....	84.00
For 1½-inch meter .....	144.00
For 2-inch meter .....	204.00
For 3-inch meter .....	336.00
For 4-inch meter .....	480.00

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

(Continued)

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

SPECIAL CONDITIONS—Contd

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 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. 1A

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Clearlake Park and vicinity, Lake County.

RATE

Per Month

For each inch of diameter of service connection ..... \$2.00

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

APPENDIX A  
Page 4 of 5

## Schedule No. 5

PUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

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

TERRITORY

Clearlake Park and vicinity, Lake County.

RATES

Per Hydrant Per Month

Type of Hydrant	Minimum Size of Riser or Connection	Number of Outlets	Minimum Size of Main Supplying Hydrant			
			Under 4"	4" and Less Than 6"	6" and Less Than 8"	8" and Larger
Wharf	Under 4-inch	1	\$0.75	\$1.00	\$1.25	\$1.50
Wharf	4-inch	1	-	1.25	1.50	1.75
Wharf	6-inch	1	-	-	1.75	2.00
Barrel	Under 4-inch	2	1.00	1.25	1.50	1.75
Barrel	4-inch	2	-	1.50	1.75	2.00
Barrel	6-inch	2	-	-	2.00	2.25
Barrel	6-inch	3	-	-	2.25	2.50

(Continued)



Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE  
(Continued)

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. 1A, Annual General Metered Service.
2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.
3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size.
4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.