

ORIGINALDecision No. 71924

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
E. E. Jennings, doing business as
Myers Water Works under Section 454
of the Public Utilities Code (1) for
emergency authority to establish
interim increased rates and (2) for
authority to establish additional
final increased rates for water service.

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) Application No. 48708
(Filed August 15, 1966)

Mrs. E. E. Jennings, for applicant.
Fred J. Pietrick, for Myers Fire District,
and Frank W. Hooper, for himself and
other customers, protestants.
Leslie D. Hay, for the Commission staff.

O P I N I O N

E. E. Jennings, an individual doing business as Myers Water Works, seeks authority to increase his rates for water service.

Public hearing was held before Examiner Catey in Myers Flat on November 17, 1966. Copies of the application had been served and notice of hearing delivered or telephoned to all customers, in accordance with this Commission's rules of procedure. The matter was submitted on November 17, 1966.

Testimony on behalf of applicant was presented by applicant and his wife. Protestants' testimony was presented by a representative of the local fire district, by three other customers, by a former partner of applicant and by the former partner's wife. Additional testimony was presented by a sanitarian from the local health authority. The Commission staff presentation was made by a staff engineer.

Service Area and Water System

Applicant's service area consists of the unincorporated community of Myers Flat, Humboldt County. The area is bounded on three sides by a bend in the South Fork of the Eel River.

Most of applicant's service area was inundated by the severe 1964 flood. Prior to that flood, applicant had served as many as 78 permanent customers and 27 seasonal customers, compared with the present total of 25 customers. There is little prospect for the return of applicant's former customers in the near future inasmuch as the county will issue no building permits for construction in the flooded-out areas of Myers Flat.

Prior to the 1964 flood, applicant's principal source of supply was a spring located across the river from his service area. The transmission line, suspended from a cable across the river, washed out in the 1964 flood. A temporary replacement washed out during the winter of 1965. A permanent replacement was under construction and almost completed at the time of the hearing.

Applicant has a standby source of water, consisting of a leased well. In June, 1966, during an outage of the original irrigation pump on that well, applicant arranged for the temporary use of a well owned by a local lumber company. Applicant later replaced the old pump, which had been subjected to two floods, with a new submersible unit.

Water from the spring, when available, flows into a large reservoir located on the hillside above Myers Flat. The well water is pumped into the same reservoir, whence it flows back into the distribution system consisting of almost four miles of mains, varying from four to eight inches in diameter. Exhibit No. 2, a customer

count used by the staff in its revenue estimates, shows 11 active metered services (including connections for a lumber mill and a State Park), 14 unmetered services (including a laundromat and a motel) and ten fire hydrants.

Service

Staff Exhibit No. 1 states that the service provided by applicant is adequate and that the four "informal complaints" filed with the Commission since January 1, 1963, were all resolved satisfactorily.

The customers who testified at the hearing objected to the taste of the well water and rusty precipitates it produces, particularly where customers are served from dead-end mains. The replacement of the transmission line from the spring should alleviate this condition. Also, applicant agreed at the hearing to institute a program for periodic flushing of dead-end mains. If applicant coordinates his flushing with fire drills and tests conducted by the local fire district, the water otherwise necessarily wasted will be put to beneficial use.

Customers also objected to occasional cumulative billings by applicant for periods covering several months. The up-to-date rules applicant is herein ordered to file will permit only monthly or bimonthly billing.

Rates and Rules

Applicant's present rates were the initial rates established in 1951. They consist of a schedule of rates for general metered service and a schedule of flat rates for residential, business, industrial and fire hydrant service. Applicant requested an immediate interim increase in all rates, with an additional increase to be established after more detailed review of the application. The

staff's Exhibit No. 1, however, provides sufficient information for at least a tentative determination of final rates without the interim step.

Following is a comparison of applicant's present rates, the final rates requested by applicant and those recommended in Exhibit No. 1 by the Commission staff.

TABLE I
COMPARISON OF MONTHLY RATES

<u>Item</u>	<u>Present Rates</u>	<u>Applicant's Proposal</u>	<u>Staff's Recommendation</u>
<u>Meter Rates</u>			
First 500 cu. ft. or less*	\$ 2.00	\$ 8.00	\$ 5.05
Next 500 cu. ft., per 100 cu. ft.	.35	1.40	.90
Next 1,000 cu. ft., per 100 cu. ft.	.25	1.00	.65
Next 2,000 cu. ft., per 100 cu. ft.	.20	.80	.50
Over 4,000 cu. ft., per 100 cu. ft.	.10	.40	.25
<u>Flat Rates</u>			
Residence	2.50	10.00	6.35
Each 1,000 sq. ft. of premises in excess of 6,000 sq. ft.	.05	.20	.125
Swimming Pool During Months of Use	2.50	10.00	#
Business Establishment	4.00	16.00	10.00
Industrial Plant	10.00	40.00	25.00
School	6.00	24.00	#
Fire Hydrant	2.00	8.00	4.00

* For Service through a 5/8 x 3/4-inch meter. Appropriately greater minimum charges for larger meters.

Category deleted.

Exhibit No. 1 shows that applicant has installed meters on the services of nine small users, but provides flat rate service to a laundromat and a motel. Although applicant's present tariffs provide for both metered and unmetered service, and metered service may be provided at the option of either the utility or the customer, care must be exercised to avoid unreasonable discrimination. For example, customers allege that applicant and his relatives receive flat rate service, whereas others under similar circumstances do not. In any

event, with the wide disparity in use possible for industrial and business customers, it appears that flat rates should in the future apply only to applicant's residential customers. The rates authorized herein so provide.

Applicant has installed six 3/4-inch meters, but none of the 5/8 x 3/4-inch meters normally found adequate for the average customer. It may well be that the customers are not aware that, under applicant's tariffs, a customer with a 3/4-inch service connection has the option of either a full 3/4-inch or a 5/8 x 3/4-inch meter. The order herein requires applicant to so advise his customers. This may permit applicant to purchase the smaller meters and to place the larger meters on business customers requiring the larger flows available therefrom. It will also permit small users to benefit from the lower minimum monthly charge applicable to the smaller meter.

A representative of the local fire district testified that any significant increase in charges for fire hydrant service would exceed the district's allowable budget for this item. It appears, however, that the district would keep within its budget at the rates recommended by the Commission staff if it discontinued the use of some of the hydrants in the flooded-out portion of the area. A lower alternate rate is provided for any future hydrants which the district wishes to install with its own capital.

Applicant's tariff service area map, and most of his rules have not been revised since 1951. The staff recommends that they be brought up to date. The order herein so provides.

Results of Operation

Applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table II,

from the staff's Exhibit No. 1 and from Exhibit E, attached to the application, are the estimated results of operation for the test year 1966, under present water rates, under the final rates proposed by applicant and under the rates recommended by the Commission staff.

TABLE II
ESTIMATED RESULTS OF OPERATIONS
TEST YEAR 1966

<u>Item</u>	<u>Staff</u>	<u>Applicant</u>
<u>At Present Rates</u>		
Operating Revenues	\$ 1,500	\$ 1,360
<u>Deductions</u>		
Expenses, Excl. Depr. and taxes	2,785	1,640
Depreciation	860	860
Taxes other than on Income	160	150
Income Taxes	0	0
Total	3,805	2,650
Net Revenue	(2,305)	(1,290)
Rate Base	*	32,000
Rate of Return	Loss	Loss
<u>At Final Rates Proposed by Applicant</u>		
Operating Revenues	*	\$ 5,430
<u>Deductions</u>		
Excluding Income Taxes	*	2,650
Income Taxes	*	480
Total	*	3,130
Net Revenue	*	2,300
Rate Base	*	32,000
Rate of Return	*	7.2%
<u>At Rates Recommended by Staff</u>		
Operating Revenues	\$ 3,805	*
<u>Deductions</u>		
Excluding Income Taxes	3,805	*
Income Taxes	0	*
Total	3,805	*
Net Revenue	0	*
Rate Base	*	*
Rate of Return	0.0%	*

(Red Figure)
* Not shown.

Operating Revenues

From Table II it can be seen that applicant's requested final rates would result in an increase of about 300 percent in operating revenues, whereas the rates recommended by the staff would produce a 150-percent increase.

Applicant's revenue estimates are based to some extent upon abnormally low revenues received in 1965. The staff estimates reflect actual conditions existing in 1966. The staff estimates are adopted for the purpose of this proceeding, but the order which follows requires applicant to file herein a summary of actual revenues accrued during his first 12 months of operations under the rates authorized in the order. If the actual accruals are significantly lower or higher than the \$3,805 estimated by the staff, the proceeding may then be reopened for further rate adjustment.

Some of the factors discussed at the hearing which would result in lower or higher revenues than estimated by the staff are:

1. Revenues may be reduced if any customers request smaller meters.
2. Revenues will be reduced if the local fire district decides to discontinue use of some of the fire hydrants in the flooded-out portion of the service area.
3. Revenues may be reduced if the portion of the local lumber mill (recently destroyed by fire) is not rebuilt.
4. Revenues may be increased when applicant meters all services other than residential and fire hydrant service.
5. Revenues may be increased if a number of former customers return to their properties either for summer or full year service.

Operating Expenses

The staff's estimates of expenses reflect cash expenditures by applicant and an allowance for the labor of applicant and his wife in maintaining and operating the system, giving recognition to operations of similar utilities and the low customer density in applicant's system. The staff estimates are adopted for the purpose of this proceeding, but the order which follows requires applicant to file herein a summary of actual expenses incurred during the first 12 months of operation under the rates authorized in the order. This information can then be reviewed along with the revenue data hereinbefore discussed.

Depreciation, Rate Base, and Rate of Return

In Exhibit No. 1, the staff indicates that applicant's records do not include sufficient information as to (1) an inventory of the remaining facilities which survived the flood and are presently used and useful in rendering public utility service, and (2) the original cost of such facilities. Even if such data were available, the staff concludes that the remaining 25 customers cannot reasonably be required to pay rates which would satisfy earning requirements for a rate base predicated on the potential of 200 customers for which the system was designed.

Under the circumstances created by the flood, the staff recommends that the conventional consideration of rate base and return thereon not be used. Instead, the staff recommends that applicant be authorized to establish rates which will just cover operating expenses, with no reduction in the normal allowance for depreciation. Since depreciation accruals are not cash items, this approach will provide funds for payment of interest on the personal loan which applicant secured to keep the system in operation. The

staff's recommendation is adopted for the purpose of this proceeding, but the order which follows permits applicant to file herein a detailed inventory, original cost appraisal and depreciation reserve requirement study. This information may then be reviewed along with the revenue and expense data hereinbefore discussed.

Findings and Conclusions

The Commission finds that:

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

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

c. Under the circumstances discussed in this Opinion, it is reasonable to omit any return on rate base.

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. Applicant's tariff service area map and rules are out of date and his present printed forms are not incorporated in his filed tariffs.

3. Applicant has not maintained the system map prescribed by General Order No. 103.

4. When data on actual operations for the first 12 months under the rates authorized herein is available, such data may warrant reopening of this proceeding.

5. Applicant's dead-end mains require periodic flushing to maintain an adequate water quality.

6. Applicant's tariffs permit customers with 3/4-inch service connections to request and receive service from either 5/8 x 3/4-inch meters or full 3/4-inch meters.

The Commission concludes that the application should be granted to the extent set forth in the order which follows, and that applicant should be required to take the actions set forth in the order.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant E. E. Jennings, doing business as Myers Water Works, 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 March 1, 1967, 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. Within forty-five days after the effective date of this order, applicant shall file with the Commission a revised tariff service area map, revised rules governing service to customers, and sample copies of printed forms that are normally used in connection with customers' services. Such filing shall comply with General Order No. 96-A. The effective date of the revised tariff sheets shall be four days after the date of filing.

3. On or before January 1, 1968, applicant shall file with the Commission two copies of the system map required by paragraph 1.10.a of General Order No. 103.

4.a. Within sixty days after the rates authorized herein have been in effect for 12 months, applicant shall file in this proceeding a summary of revenues and expenses for that 12-month period. The summary shall be in the form and in the same detail as on page 5 of Staff Exhibit No. 1 herein, except that a further breakdown shall be provided between revenues from flat rate and metered services.

b. Concurrently with the filing of the revenue and expense data prescribed in the foregoing paragraph 4.a, applicant may file in this proceeding a detailed inventory, original cost appraisal and depreciation reserve requirement study for surviving plant.

5. Within thirty days after the effective date of this order, applicant shall institute a program for the periodic flushing of all of his dead-end mains and shall file in this proceeding a copy of the flushing schedule.

6. On or before the effective date of this order, applicant shall submit written notice to all of his customers receiving service from 3/4-inch service connections that metered service is available through either 5/8 x 3/4-inch or full 3/4-inch meters, and shall file in this proceeding a copy of the notice.

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

Dated at San Francisco, California, this 24th day of JANUARY, 1967.

[Signature]
President
[Signature]
[Signature]
[Signature]

Commissioner WILLIAM SYMONS, JR. did not participate in the disposition of this proceeding.

Commissioners

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service. (T)

TERRITORY

Myers Flat and vicinity, Humboldt County. (T)

RATES

	<u>Per Meter Per Month</u>	
Quantity Rates:		(T)
First 500 cu.ft. or less	\$ 5.05	(I)
Next 500 cu.ft., per 100 cu.ft.90	
Next 1,000 cu.ft., per 100 cu.ft.65	
Next 2,000 cu.ft., per 100 cu.ft.50	
Over 4,000 cu.ft., per 100 cu.ft.25	
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 5.05	
For 3/4-inch meter	7.00	
For 1-inch meter	8.90	
For 1 1/2-inch meter	18.00	
For 2-inch meter	23.00	
For 3-inch meter	35.00	

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

Schedule No. 2

GENERAL FLAT RATE SERVICE (T)

APPLICABILITY

Applicable to all flat rate water service. (T)

TERRITORY

Myers Flat and vicinity, Humboldt County. (T)

RATES

	<u>Per Service Connection Per Month</u>	
Residence, including premises area not exceeding 6,000 sq.ft.	\$ 6.35	(T)
Residential premises areas in excess of 6,000 sq.ft. per 1,000 sq.ft.125	(I)
Business or other commercial establishment	10.00	(I)
Industrial plants	25.00	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one-inch in diameter. (T)

2. Service not provided for above shall be furnished on a metered basis only. (I)

3. If either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service. (T)

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, organized fire districts and other political subdivisions of the State. (T)
(T)

TERRITORY

Myers Flat and vicinity, Humboldt County. (T)

RATE

	<u>Per Month</u>	
For each hydrant owned and maintained by utility	\$ 4.00	(I)
For each hydrant owned and maintained by public authority..	2.50	(N)

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. 1, General Metered Service. (N)
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. (N)