

ORIGINALDecision No. 72724

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 REYNOLDS WATER COMPANY, INC., under
 Section 454 of the Public Utilities
 Code for authority to establish
 increased rates.

Application No. 49055
 (Filed December 27, 1966)

A. A. Pjalorsi, for applicant.

W. B. Stradley and E. Prando, for
 the Commission staff.

O P I N I O N

Applicant, Reynolds Water Company, Inc., seeks herein authority to increase its rates for water service.

A duly noticed public hearing was held in this matter before Examiner Jarvis at Eureka on April 12, 1967, and it was submitted on that date.

Applicant provides water service to approximately 250 customers in the Humboldt Hill area, south of Eureka in Humboldt County. Applicant contends that it operated at a loss in 1965 and 1966 and will continue to do so unless it is granted an increase in rates. The record discloses that except for a customer's ledger applicant has not maintained formal accounting records. Thus, the figures proffered by applicant to support its contentions are of little probative value. The Commission staff conducted an investigation of applicant's operations and earnings. As part of the investigation, the staff reconstructed the balances in appropriate accounts based on a field inspection of applicant's water facilities presently in service, an examination of contractors'

and suppliers' invoices, discussions with applicant's management and staff estimates of costs considered to be reasonable where no supporting data was available with respect to the installation of water plant facilities. The staff prepared a comparative income statement of applicant's operations for 1965 and 1966 which is as follows:

<u>Item</u>	<u>Calendar Year</u>	
	<u>1965</u>	<u>1966</u>
<u>Operating Revenues</u>		
Metered Sales to General Customers	\$ 7,380	\$ 9,283
Unmetered Sales to General Customers	1,039	1,353
Total Operating Revenues	<u>8,419</u>	<u>10,636</u>
<u>Operating Revenue Deductions</u>		
<u>Operating Expenses</u>		
Administrative Salaries	600	600
Clerical Salaries	1,200	1,200
Operation and Maintenance Salaries	624	1,244
Contract Repairs - Arcata Pump and Equipment Co.	464	1,450
Materials Used	212	310
Purchased Power	1,923	2,095
Water Analysis	132	144
Telephone	106	125
Travel Expense	-	100
Uncollectibles	301	132
Miscellaneous	16	69
Total Operating Expenses	<u>5,578</u>	<u>7,469</u>
Depreciation Expense	3,924	4,018
Ad Valorem Taxes	623	669
State Franchise Tax	100	100
Total Operating Revenue Deductions	<u>10,225</u>	<u>12,256</u>
Net Operating Revenue (Loss)	<u>(1,806)</u>	<u>(1,620)</u>
Interest Expense	<u>(1,950)</u>	<u>(2,077)</u>
Net Income (Loss)	<u>(3,756)</u>	<u>(3,697)</u>

(Red Figure)

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The staff also estimated that, at presently authorized rates, applicant will have a net operating revenue loss of \$1,403 in 1967. It is clear from the foregoing that applicant's rates are not sufficient and it is entitled to an increase in rates.

A comparison of applicant's present and proposed rates is as follows:

Meter Rates

	<u>Per Meter Per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
Quantity Rates:		
First 600 cu.ft. or less	\$ 2.50	\$ 6.40
Next 1,400 cu.ft., per 100 cu.ft. ....	.35	.90
Next 3,000 cu.ft., per 100 cu.ft. ....	.25	.65
Next 10,000 cu.ft., per 100 cu.ft. ....	.15	.40
Over 15,000 cu.ft., per 100 cu.ft. ....	.12	.30
Minimum Charge:		
For 5/8 x 3/4-inch meter	2.50	6.40
For 3/4-inch meter	3.75	9.50
For 1-inch meter	6.00	15.00
For 1 1/2-inch meter	10.00	25.00
For 2-inch meter	15.00	40.00
For 3-inch meter	25.00	65.00

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

Applicant contends that the proposed rates will permit it to earn a 6.5 percent rate of return. The staff contends that the proposed rates will permit applicant to earn an 18.7 percent rate of return. In order to pass upon the issues presented herein, it is necessary to determine applicant's rate base, operating revenues, operating expenses, taxes and consider certain improvements for the system recommended by the staff.

Applicant's operations began with Elbert A. Reynolds, doing business as Humboldt Hill Water Service, under appropriate authority from this Commission. Reynolds was the subdivider of the

Humboldt Hill tracts which are a portion of applicant's service area. However, in the past several years Reynolds has not been active in the development or sale of land within applicant's service area. Mr. A. A. Pialorsi presently operates and manages applicant. Pialorsi also owns the Arcata Pump and Equipment Company. Reynolds hired Arcata Pump and Equipment Company to install part of the water system. By 1962, Reynolds owed Pialorsi \$28,800 for service and materials furnished to the water system by Arcata Pump and Equipment Company. The money appeared to be uncollectible. Reynolds and Pialorsi entered into an agreement whereby a new corporation would be formed to take over the water system and Pialorsi would convert his creditor interest into an equity one by taking common stock in the new corporation for the \$28,800 debt owed to him. Decision No. 64263 in Application No. 44769, entered on September 19, 1962, authorized Reynolds to transfer his public utility operations and property to applicant and authorized the issuing of shares of common stock in payment for the property constituting the water system and the outstanding indebtedness. Thereafter, applicant issued 3,011 shares of its \$10 par value common stock to Reynolds and 2,880 shares to Pialorsi. Subsequently, Reynolds assigned the voting rights in 132 shares of his stock to Pialorsi, and since that time Pialorsi has taken over the management and control of applicant.

Pialorsi testified that since taking over the management and control of applicant he had personally expended an additional \$30,000 for additional improvements to and maintenance of the water system and that applicant owes an additional \$5,000 to Arcata Pump and Equipment Company. Pialorsi also testified that since taking over the management and operation of the water system he has attempted to comply with the requirements of this Commission. He

stated that, although applicant had been losing money, he did not cause an application for a rate increase to be filed sooner because Reynolds had represented to him that there was a prospective purchaser for the system and Pialorsi believed that he would be able to sell his interest in the system and get out of the water business. However, the prospective purchaser never materialized.

The record discloses that Reynolds diverted certain utility revenues to his personal use rather than depositing them in appropriate company accounts, made certain expenditures not properly chargeable to applicant and borrowed money in applicant's name for nonutility purposes. The total amount involved is \$8,909.69, which the staff recommends be treated as an account receivable from Reynolds. This amount is not includable in applicant's rate base or operating expenses. Its significance with respect to this proceeding is that, insofar as this money is uncollectible, it is capital unavailable for needed improvements to the system.

The staff presented evidence which indicates that various portions of applicant's system do not have adequate pressure; that there are numerous customer complaints about sand and dirt in the water; that various water mains are leaking badly and require excessive repair and that there are numerous complaints about applicant's many customers who are furnished water without a meter and are billed at the minimum rate for 5/8 x 3/4-inch metered service even though they use more than the minimum amount of water for the lowest metered rate. Three members of the public made sworn statements at the hearing. These statements corroborated the evidence adduced by the staff, particularly on the point of inadequate pressure. Furthermore, applicant concedes the aforementioned service problems. Pialorsi testified that the most

important improvement required is to raise the pressure in those portions of the system having substandard pressure and the second most important improvement required is to replace approximately 4,000 feet of plastic pipe water mains, installed by subdividers, with more suitable pipe. Other contemplated improvements include installation of meters for services not now metered and the replacement and relocation of service connections, on a progressive basis, in certain areas.

The staff presented evidence which indicates that applicant's average depreciated rate base for the estimated test year of 1967 is \$80,200 and applicant does not challenge this figure. There is a controversy between applicant and the staff over the amount which should be allowed applicant for accounting fees. A staff witness testified that included in the \$3,520 estimate for salaries is \$600 for accounting fees. Pjalorsi testified that he presently paid his accountant \$800 per year. The Commission is of the opinion that the payment by applicant of \$800 per year for accounting fees is not unreasonable and that figure rather than \$600 should be used for the estimated test year 1967.

As indicated, applicant has asked for rates which it claims will yield 6.5 percent but which the staff claims will yield 18.7 percent. The staff recommended a rate of return of 7.25 percent. The record indicates that improvements are required in applicant's water system and that it is necessary for applicant to borrow money in order to make many of the needed improvements. In the circumstances, the Commission is of the opinion that an 8 percent rate of return upon the rate base developed by the staff would be reasonable and put applicant in a position where

it would be able to borrow money to make needed improvements.

The record discloses that a water supply permit was issued to Reynolds, applicant's predecessor, by the State Department of Public Health, but that it has not been reissued to applicant. The evidence indicates that regular bacteriological tests of water supplied by applicant during the past several years indicate that the quality of the water has been satisfactory. However, applicant will be required to secure the required water supply permit. The staff also presented evidence which indicates that the restriction preventing applicant from extending service, pursuant to Section 1001 of the Public Utilities Code, without prior authority of this Commission, is no longer necessary.

No other points require discussion. The Commission makes the following findings and conclusions.

Findings of Fact

1. Portions of applicant's water system, and particularly the Humboldt Hill Subdivision area, have substandard pressure.

2. Portions of applicant's water system, particularly in the Humboldt Hill Subdivision area and in Brete Hart Lane, have 2-inch plastic pipe water mains. These plastic water mains are improper, inadequate and insufficient.

3. Applicant's water system presently has steel mains located in easements in the Country Club Estates area. These steel water mains are leaking badly, require excessive repairs and are improper, inadequate and insufficient.

4. On occasion there is dirt or sand in the water supplied by applicant.

5. In order to provide adequate pressure in its system, supply water without sand or dirt therein, and provide facilities and service which are proper, adequate and sufficient, it is necessary for applicant to do the following:

- a. Equip its Well No. 3 and connect it to a storage tank.
- b. Replace all plastic water mains in the Humboldt Hill and Parkwood Subdivisions with suitable pipe.
- c. Replace and relocate, on a progressive basis, the steel water mains which are presently in easements in the Country Club Estates area with more suitable pipe and relocate customer service connections and install meters, where they are not already installed at the time such replacement and relocation is done.
- d. Construct a storage and work building.
- e. Fence its wells and related equipment.
- f. Install pressure and distribution facilities to provide adequate service to customers at the higher elevation in the Humboldt Hill Subdivision.
- g. Initiate and maintain a scheduled program of water main flushing adequate for the removal of entrained sediment and sand.

6. Applicant presently provides unmetered water service for many of its customers. These unmetered customers are presently billed the minimum charge for a 5/8 x 3/4-inch meter even though they use more than the minimum amount of water for the lowest metered rate. Applicant's present charges for unmetered customers are unreasonable.

7. The following adopted estimates of revenues, expenses (including taxes and depreciation), the rate base and rate of return for the estimated test year 1967 at the rates hereinafter authorized reasonably represent the results of applicant's operations for the purposes of this proceeding:

<u>Operating Revenues</u>	\$23,600
<u>Operating Revenue Deductions and Operating Expenses</u>	
Salaries	\$ 3,720
Purchased Power	2,500
Telephone	125
Rate Case Prorate	50
Water Supply Expense & Analysis	200
Materials and Supplies	300
Contract Repairs, T&D	900
General Expense and Miscellaneous	70
Customer Accounting & Coll.	1,100
Office and Shop Rent	600
Insurance	300
Transportation and Travel	100
General Expense Subtotal	<u>9,965</u>
Depreciation	4,199
Taxes Other Than Income	700
Income Taxes	<u>2,296</u>
Total Deductions	<u>17,160</u>
Net Revenue	6,440
Rate Base	80,200
Rate of Return	8%

8. The rates authorized by this decision should yield a rate of return of 8.0 percent on an average depreciated rate base of \$80,200, and these rates are reasonable.

9. The increases in rates and charges authorized by this decision are justified, the rates and charges set forth in Appendix A attached hereto are fair and reasonable for the service to be rendered and the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

10. The public interest no longer requires that applicant shall not extend its water system, pursuant to Section 1001 of the Public Utilities Code, without an order of this Commission.

11. Applicant does not presently have a water supply permit from an appropriate public health authority.

12. Applicant does not have a set of books in accordance with the Uniform System of Accounts prescribed by this Commission for Class D Water Utilities.

13. Applicant's assets and other debits and utility plant and reserve for depreciation are correctly stated in paragraphs 7 and 8 of Section II of Exhibit 1.

14. Applicant's managing officer and controlling shareholder owns the Arcata Pump and Equipment Company. In transactions between applicant and Arcata Pump and Equipment Company, it will be unreasonable, for rate-making purposes, for applicant to reflect on its books any charges by Arcata Pump and Equipment Company at any amount greater than the actual cost to Arcata Pump and Equipment Company for the materials, labor or rented equipment, including overheads, plus a return to Arcata Pump and Equipment Company greater than the 8 percent rate of return found reasonable in this proceeding.

Conclusions of Law

1. Applicant should be ordered to:
 - a. Equip its Well No. 3 and connect it to a storage tank.
 - b. Replace all plastic water mains in the Humboldt Hill and Parkwood Subdivisions with suitable pipe.
 - c. Replace and relocate, on a progressive basis, the steel water mains which are presently in easements in the Country Club Estates area with more suitable pipe and relocate customer service connections and install meters where they are not already installed at the time such replacement and relocation is done.
 - d. Construct a storage and work building.
 - e. Fence its wells and related equipment.
 - f. Install pressure and distribution facilities to provide adequate service to customers at the higher elevation in the Humboldt Hill Subdivision.

g. Initiate and maintain a scheduled program of water main flushing adequate for the removal of entrained sediment and sand.

2. Applicant should be authorized to charge the rates set forth in Appendix A.

3. Prior to the relocation of mains and service connections and the installation of meters in the Country Club Estates area, applicant should be ordered to charge its flat rate customers the flat rate set forth in Appendix A. Applicant should not be required to install meters in the Country Club Estates area until after the mains are relocated.

4. Applicant should be ordered to obtain a water supply permit from an appropriate public health authority.

5. The restriction in ordering paragraph 10 of Decision No. 62707, restricting applicant from expanding its water system pursuant to Section 1001 of the Public Utilities Code without an appropriate order of this Commission, should be removed.

6. Applicant should be ordered to employ or continue to employ an accountant who shall prepare and maintain a set of books in accordance with the Uniform System of Accounts for Class D Utilities. Said books shall reflect applicant's assets and other debits and utility plant and reserve for depreciation as set forth in paragraphs 7 and 8 of Section II of Exhibit 1 and the depreciation rates set forth in Table 3-A of Exhibit 1.

7. Applicant should be ordered to reflect on the books for rate-making purposes, in all future transactions between it and Arcata Pump and Equipment Company, no greater amount than the actual cost to Arcata Pump and Equipment Company for the materials, labor or rented equipment, including overheads, plus a return to Arcata Pump and Equipment Company no greater than the 8 percent rate of return herein authorized.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant Reynolds Water Company, Inc. 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 August 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 a revised tariff service area map, appropriate general rules, 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. Applicant shall prepare and keep current the system map required by paragraph 1.10.a. of General Order No. 103. Within ninety days after the effective date of this order, applicant shall file with the Commission two copies of this map.

4. For the year 1967, applicant shall apply the depreciation rates set forth in Table 3-A of Exhibit 1. 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 change in depreciable plant occurs. Any revised depreciation rate should 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

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estimated remaining life of the plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be promptly submitted to the Commission.

5. Within one year after the effective date of this order, applicant shall:

- a. Equip its Well No. 3 and connect it to a storage tank.
- b. Replace all plastic water mains in the Humboldt Hill and Parkwood Subdivisions with suitable pipe.
- c. Fence its wells and related equipment.
- d. Install pressure and distribution facilities to provide adequate service to customers at the higher elevation in the Humboldt Hill Subdivision.

6. Within two years after the effective date of this order, applicant shall:

- a. Replace and relocate, on a progressive basis, the steel water mains which are presently in easements in the Country Club Estates area with more suitable pipe and relocate customer service connections and install meters after such replacement and relocation of mains.
- b. Construct a storage and work building.

7. Applicant shall initiate and maintain a scheduled program of water main flushing adequate for the removal of entrained sediment and sand.

8. Within thirty days after the effective date of this order, applicant shall apply to an appropriate public health authority for a water supply permit.

9. Within thirty days after the effective date of this order, applicant shall employ, or continue to employ an accountant who shall prepare and maintain a set of books in accordance with the Uniform System of Accounts for Class D Utilities. Said books

shall reflect applicant's assets and other debits and utility plant and reserve for depreciation as set forth in paragraphs 7 and 8 of Section II of Exhibit 1.

10. In all future transactions between applicant and Arcata Pump and Equipment Company, applicant shall reflect on its books, for rate-making purposes, no greater amount than the actual cost to Arcata Pump and Equipment Company for the materials, labor or rented equipment, including overheads, plus a return to Arcata Pump and Equipment Company no greater than the 8 percent rate of return authorized in this proceeding.

11. Applicant shall report to the Commission on June 30 and December 31 of each year the status of compliance with the requirements of paragraphs 5 and 6 until completion of the installations.

12. Ordering paragraph 10 of Decision No. 62707 is hereby revoked.

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

Dated at San Francisco, California, this 11th day of JULY, 1967.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners

APPENDIX A
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Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Humboldt Hill and vicinity, located immediately south of Eureka,
Humboldt County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 400 cu.ft. or less	\$ 3.85
Next 1,600 cu.ft., per 100 cu.ft. ....	.55
Next 3,000 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	\$ 3.85
For 3/4-inch meter	5.00
For 1-inch meter	7.50
For 1 1/2-inch meter	14.00
For 2-inch meter	20.00
For 3-inch meter	30.00
For 4-inch meter	45.00

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

Schedule No. 2RLX

LIMITED TEMPORARY RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Country Club Estates Subdivision, Humboldt Hill, immediately south of Eureka, Humboldt County.

RATE

Per Service Connection
Per Month

For a single-family residential unit,
including premises \$ 6.60

SPECIAL CONDITIONS

1. The above flat rate applies to a service connection not larger than one inch in diameter.
2. A meter will not be installed until after the main is replaced or relocated.
3. Service under this schedule shall be limited to premises in the Country Club Estates Subdivision.
4. This schedule shall be effective only to and including July 31, 1969, and will thereafter be withdrawn.