

ORIGINALDecision No. 72963

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own)
 motion into the operations, service,)
 maintenance, facilities, equipment,)
 water supply, practices, rates, rules,)
 tariff schedules and records of)
 Windsor Utility Corporation (water).)

Case No. 8512
 (Filed August 23, 1966)

Morris M. Mawson, for respondent.
John D. Reader, for the Commission staff.

O P I N I O N

The Commission instituted this investigation of respondent Windsor Utility Corporation because of numerous customer complaints regarding low pressure and interruptions in service. The stated purpose of the investigation is to determine:

1. Whether the operations, service, maintenance, facilities, equipment, water supply, practices, rates, rules, tariff schedules and records of respondent are unreasonable or inadequate.
2. Whether respondent can reasonably carry out its public utility obligations and functions at existing rate levels and whether such rates should be increased.
3. Whether respondent should be restricted from providing service to any additional customers.
4. Whether any other order or orders should be issued by the Commission in the lawful exercise of its jurisdiction.

Public hearing was held before Examiner Catey in Windsor on January 4, 1967, and in Santa Rosa on April 24, 1967. Testimony was presented by an engineer of the Commission staff, by a sanitarian from the Sonoma County Health Department, by the engineer of Windsor County Water District (District), by the president of the Windsor

Chamber of Commerce, by respondent's president and by its attorney. The matter was submitted on April 24, 1967.

Service Area and Water System

Respondent's service area is the community of Windsor, located in Sonoma County, about 8 miles north of the City of Santa Rosa. There are approximately 75 customers being furnished flat rate service. No tariff service area map has been filed. The service area is not clearly defined but, except for a few lots, it is within the boundaries of District, which now operates only sewage collection and treatment facilities, both inside and outside of the district boundaries.

Respondent's source of supply is a single well. A 5-horsepower deep-well turbine pump or a 3-horsepower jet pump normally is used to pump water from the well. A number of times in the past five years, the motor of the deep-well turbine pump has burned out, and the pump has had to be overhauled or replaced. In the fall of 1966, borrowed or rented pumps were used. Water is pumped through a 500-gallon steel tank to the distribution system, but the tank is of no use as presently arranged. A second 500-gallon steel tank serves as a hydropneumatic tank but is not of sufficient capacity and is not properly connected. Pump controls are set for a pressure range of 47 to 65 psi.

Distribution mains, about 14 inches deep, generally are located on both sides of the streets. The mains consist of about 3,650 feet of 2 1/2-inch and 2-inch pipe and 3,150 feet of 1 1/2-inch and 1 1/4-inch pipe. Services are apparently of 3/4-inch pipe. Only about 75 services are in use, because some property owners have their own individual wells.

History

A water system was installed in Windsor in about 1887 and was enlarged in 1900. In 1921, the Commission denied authority for

the owner to discontinue service. In 1938, the owner of the system wished to discontinue service, so residents formed respondent corporation, which was granted a certificate of public convenience and necessity by Decision No. 31453, dated November 10, 1938, in Application No. 22252. The decision authorized a flat rate of \$2 per month. Larger mains were installed in some parts of the service area, additional mains were installed to serve some new customers, and certain of the old mains, pressure tanks and other equipment were purchased from the previous owner for a consideration of \$500.

In 1947, respondent was authorized to file a meter rate schedule with a monthly minimum charge of \$2 for a 5/8 x 3/4-inch meter and a quantity rate of 20 cents per 100 cubic feet for any water use over 1,000 cubic feet per month. This schedule was filed in 1948, but meters were never installed and respondent continued to charge the cancelled flat rate of \$2 per month.

Early in the 1960's, the voters defeated two bond elections designed to have District provide water service. District, according to its engineer, had planned to purchase and rebuild the Windsor water system and to bring water from the Santa Rosa aqueduct. Charges to customers had been estimated to be at least \$6 per month.

By Decision No. 63839, dated July 2, 1962, in Application No. 44453, respondent was directed to install meters. The opinion states that the well capacity of 76 gallons per minute was inadequate to meet the requirements in the certificated service area. The decision authorized the utility to execute a deed of trust and a note in the principal amount of not to exceed \$45,000 for: production and storage facilities at an industrial site southeast of Windsor; 3,000 feet of 6-inch and 4-inch mains to serve a school; connection of the production facilities to the then existing water system;

replacement of 1,000 feet of mains; and installation of 80 water meters. The authority was not exercised.

On December 1, 1966, the California Division of Real Estate issued its Final Subdivision Public Report on Starr View Estates, Subdivision No. 1, which is a 6 1/2-acre subdivision of 20 lots or parcels located within the boundaries of District, about 3,500 feet north and west from the Windsor system. The subdivider has posted a \$25,000 surety bond with District to guarantee water facilities for 89 services, which is 69 more than planned for Subdivision No. 1. District is to own and operate the water system to serve the subdivision as its first water system.

Status of Corporation, Franchise and Permits

The Corporation Index office of the Secretary of State informed the Commission's staff that respondent had been suspended in 1940 for nonpayment of taxes, and is considered a corporation not in good standing. Respondent's attorney estimates that about \$1,300 in delinquent corporation franchise taxes, plus undetermined penalties, would be required to reinstate the corporation.

The suspension of a California corporation for failure to pay its corporate franchise taxes does not affect the corporation's existence but does suspend its right to do business as a corporation. During the period of suspension, the corporation's directors are without power to borrow money, execute notes or issue shares of stock in the name of the corporation. Respondent's directors have thus placed the corporation in a situation from which it may not be possible to extricate itself: until it pays its delinquent taxes, it cannot obtain funds through borrowing or issuance of securities; unless it can obtain funds, it is unable to pay its delinquent taxes. It may well be that respondent's present total liabilities, including

delinquent franchise taxes together with interest and penalties over the past 26 years, exceed its total assets.

The Sonoma County Board of Supervisors granted a franchise to respondent in 1938. The franchise required a payment of two percent of the gross revenue received from the operation of the water system. Respondent apparently never paid the county any of these fees. Respondent's attorney estimates that the payments would have amounted in total to about \$400. As a further complication, the franchise expired in 1963 and has not been extended or renewed. Respondent has not obtained an encroachment permit or other authorization in lieu of the expired franchise.

Respondent has applied for, but not yet received, a public water supply permit from the Sonoma County Health Department. A sanitarian from that agency testified that water samples taken throughout the system contained no harmful bacteria but that the water system did not have sufficient production capacity nor did it provide adequate water pressure. Further, the well water has a very high manganese content.

Service

Over the years, customers have complained to this Commission regarding inadequate water pressure and interruptions in service. Interruptions because of pump failures and repairs to distribution mains are not uncommon for this system. Exhibit No. 1 shows that, on July 7, 1966, this Commission received a letter signed by many of the utility's customers requesting that the Commission compel the utility to provide users with sufficient water in conformance with state law.

On July 15, 1966, a field investigation by the Commission staff showed that, around noon, pressures ranged as low as 6 psi at a residence located at the end of a water main. Pressure recordings

taken subsequently at two customer premises showed that at night, the pressure varied between 45 and 65 psi but, during the day generally decreased to less than 25 psi and ranged as low as 6 to 10 psi.

The staff concludes in Exhibit No. 1 that adequate service to all present and potential future customers in respondent's service area could not be provided unless practically all mains were replaced and an additional source of water provided. This would cost an estimated \$40,000, as compared with respondent's present net plant of about \$1,800. Even to drill and equip another well and connect it with the existing system at an appropriate point would require a capital expenditure of at least \$13,300. Unless and until the suspension of respondent's corporate rights and privileges is vacated by the State Corporation Franchise Tax authorities, capital expenditures of any significant magnitude will be impossible to finance.

As an alternative to drilling a new well, respondent's president has reached tentative agreement with the owner of an existing well to lease that well for \$100 per month. The capital investment would then be limited essentially to the interconnecting main that should be installed. As an emergency measure, respondent might even be able to rent some high-pressure irrigation piping which could be extended temporarily above ground until a permanent installation can be financed. This would further reduce the immediate capital requirements and is an acceptable temporary expedient even though it would result in higher expenses and undesirable solar heating of the water supplied to customers.

Another possible solution to the problem would be for District to take over the operation of the system in conjunction with its operation of the sewage system in the same area and the Starr View Estates water system. In view of the rejection by the voters in prior bond elections, the directors are understandably reluctant to

force District's services upon an apparently unwilling public. District's engineer stated that this obstacle could be overcome if the public now indicates its approval in a referendum. Respondent requests authority to negotiate with District for the ultimate transfer of the water system. Commission authorization is required for the transfer but not for the negotiations leading to the transfer.

If no agreement is reached for transfer of the system to District, respondent requests authority to offer the system to its customers for operation as a non-profit mutual water company. As in the case of a transfer to District, it is only the transfer itself, not the offer, that requires Commission authorization.

Staff Exhibit No. 1 shows that, if respondent were able to finance about \$13,300 of improvements, including \$7,300 for new well and pumping facilities, and were to add ten new customers, doubling the present water rate to \$4 per month would provide a return of over 7 percent on rate base. Unfortunately, respondent is not able to finance such improvements and is not likely to add ten new customers in the near future.

Staff Exhibit No. 5 shows that, if respondent must pay \$100 per month for the lease of a well, can finance the installation of about 1,000 feet of permanent pipeline at \$4 per foot, adds only five new customers and were not subject to the \$100 minimum State Corporation Franchise Tax, doubling of the present water rate would provide less than 3 percent return on rate base. When the applicable tax is considered, the return would be even lower.

Respondent's attorney testified that the \$100 per month for the leased well is only a tentative maximum and that it might be possible to negotiate a lower monthly charge. For the purpose of this proceeding, we will assume that respondent will be able to lease a well for \$80 per month, an amount more closely approximating the

depreciation expense, taxes, and return on investment that would be involved if respondent were able to finance the installation of a well of its own.

Summary of Earnings

Summarized in Table I are the adopted results of operation for the test year 1967, without the leased well under present and interim rates, and with the leased well under final rates authorized herein.

Table I
Adopted Results of Operation-Test Year 1967

Item	Without Leased Well		With Leased Well:
	Pres. Rates	Interim Rates	Final Rates
Operating Revenues, Less Uncollectibles	\$1,840	\$2,180	\$3,990
<u>Deductions</u>			
Expenses, Excl. Well Rent	1,660	1,660	1,800
Well Rent	0	0	960
Depreciation	250	250	370
Taxes Other Than on Income	160	160	200
Subtotal	2,070	2,070	3,330
State Corp. Franch. Tax (Min.)	100	100	100
Federal Income Tax (Corporate)	0	0	120
Invest. Tax Credit (5-yr. prorated)	0	0	(20)
Total	2,170	2,170	3,530
Net Revenue	(330)	10	460
Rate Base	1,800	1,800	5,800
Rate of Return	Loss	1%	8%

(Red Figure)

From Table I it can be seen that respondent is now selling water at a loss, that the \$2.35 interim monthly flat rate authorized herein prior to respondent's utilizing a leased well will barely cover respondent's costs of operations, and that the \$4.25 monthly flat rate to become effective after utilizing the leased well should provide a return of about 8 percent on rate base.

Findings and Conclusions

The Commission finds that:

1. Respondent's corporate rights were suspended in 1940 for failure to pay State Corporation Franchise Taxes.

2. The present arrangement of respondent's hydropneumatic tanks does not give adequate protection against rapid cycling and consequent overheating of the motors on the well pumps.

3. Respondent has tentative plans for leasing a well and for negotiating the ultimate operation of the water system by either Windsor County Water District or a mutual water company.

4.a. Respondent is in need of additional revenues to avoid operating at a loss.

b. If respondent leases a well as discussed herein and interconnects it satisfactorily with the present distribution system, respondent will be in need of a further increase in revenues.

c. The adopted estimates, previously summarized and discussed herein, of operating revenues, operating expenses and rate base for the test year 1967 reasonably represent the results of respondent's future operations.

d. With the present quality of service, respondent is not entitled to more than a token rate of return.

e. When respondent utilizes a leased well, as discussed herein, a rate of return of eight percent will be reasonable.

f. 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.

5. Until respondent secures a supplemental source such as the leased well, extension of service by respondent to any new customers would cause further deterioration in service to present customers.

6. Even with the leased well, respondent's system is not adequate to provide service to additional subdivision developments.

The Commission concludes that:

1. Respondent must have its corporate rights reinstated if it is to continue in operation.

2. Respondent should continue to seek the lease of an existing well and should continue to explore the possibility of service to the area by an existing water district or a proposed mutual water company.

3. Rate increases should be authorized, the final increase to be contingent upon utilization of a leased well.

4. Until water is available to respondent from the leased well, extension of service to any new customers should be prohibited.

5. Until still further improvements to the existing system can be financed by respondent, extension of service to any new subdivision development should be prohibited.

O R D E R

IT IS ORDERED that:

1.a. Within ten days after the effective date of this order, respondent Windsor Utility Corporation shall request the California Franchise Tax Board to advise it as to the steps necessary for lifting the present suspension of respondent's corporate rights, and shall file in this proceeding a copy of the letter requesting this information.

b. Within twenty days after respondent receives the information it requests pursuant to the foregoing subparagraph 1.a., it shall file in this proceeding a statement showing the date that the information was received and outlining the method and a proposed approximate time schedule for reinstatement of respondent's corporate rights.

2. Within thirty days after the effective date of this order, respondent shall rearrange its hydropneumatic tanks as shown on staff Exhibit No. 6, and shall file in this proceeding a notice of completion of the rearrangement.

3. Within the first ten days of each calendar month after the effective date of this order, and continuing for each of the following pending plans until it is either effected or discontinued, respondent shall file in this proceeding a statement showing the status of:

- a. The lease of a supplemental well and the interconnection of the leased well with respondent's distribution system.
- b. The negotiations for operation of the system by:
 - (1) Windsor County Water District.
 - (2) A proposed mutual water company.

4.a. After the effective date of this order, respondent is authorized to file the new and revised rate schedules attached to this order as Appendix A, together with appropriate rules and a tariff service area map clearly indicating the boundaries of the service area. Such filing shall comply with General Order No. 96-A. The effective date of the new and revised tariff sheets shall be October 1, 1967, or four days after the date of filing, whichever is later. The revised tariffs shall apply only to service rendered on and after the effective date thereof. ✓

b. Upon satisfactory interconnection of the leased well discussed herein with respondent's distribution system, as evidenced by a supplemental order herein, respondent will be authorized to file the revised rate schedules attached to this order as Appendix B.

5. Until satisfactory interconnection of the leased well discussed herein with respondent's distribution system, respondent

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shall not extend service to any new customers who shall not have applied for service prior to the date of this order.

6. Until authorized by further order of this Commission, respondent shall not extend service to any additional subdivision development.

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

Dated at San Francisco, California, this 29th day of AUGUST, 1967.

Robert E. Mitchell
President

William L. Burnett

August

William L. Burnett, Jr.

Shed P. Kowalsky
Commissioners

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Community of Windsor located on the west side of Highway 101 approximately 8 miles north of Santa Rosa, Sonoma County.

RATES

Quantity Rates:		Per Meter Per Month	
First	700 cu. ft. or less	\$2.00	(I)
Next	1,300 cu. ft., per 100 cu. ft.25	(I)
Over	2,000 cu. ft., per 100 cu. ft.20	

Minimum Charge

For	5/8 x 3/4-inch meter	\$ 2.00	
For	3/4-inch meter	3.00	
For	1-inch meter	5.00	(N)
For	1½-inch meter	9.00	(N)
For	2-inch meter	\$11.00	(N)

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

Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Community of Windsor located on the west side of Highway 101 approximately 8 miles north of Santa Rosa, Sonoma County.

RATE

	<u>Per Service Connection</u> <u>Per Month</u>	
For each single-family residential unit or commercial establishment	\$2.35	(I)

SPECIAL CONDITIONS

1. The above flat rate applies to a service connection not larger than one inch in diameter.
2. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Community of Windsor located on the West side of Highway 101 approximately 8 miles north of Santa Rosa, Sonoma County.

RATES

Quantity Rates:		<u>Per Meter</u> <u>Per Month</u>	
First	700 cu. ft. or less	\$ 3.75	(I)
Next	1,300 cu. ft., per 100 cu. ft.40	(I)
Next	3,000 cu. ft., per 100 cu. ft.30	(I)
Over	5,000 cu. ft., per 100 cu. ft.20	
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ 3.75	(I)
For	3/4-inch meter	5.00	
For	1-inch meter	8.00	
For	1 1/2-inch meter	14.50	
For	2-inch meter	20.00	(I)

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

Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Community of Windsor located on the west side of Highway 101 approximately 8 miles north of Santa Rosa, Sonoma County.

RATE

	<u>Per Service Connection Per Month</u>	
For each single-family residential unit or commercial establishment	\$4.25	(I)

SPECIAL CONDITIONS

1. The above flat rate applies to a service connection not larger than one inch in diameter.
2. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.