

ORIGINAL

Decision No. 73333

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 DEER LAKE WATER CORPORATION, a Califor-
 nia Corporation, for an Increase in
 Rates for water service, for approval
 of the issuance of 2,500 shares of
 common stock, for permission to sell
 five acres of land and for the approval
 of the sale, by W. M. Noe, Sr. of all
 of his ownership interest in Deer Lake
 Water Corporation to Bien Corporation.

Application No. 48966
 (Filed November 21, 1966)

Brown and Caldwell, by Robert O. Randall,
 for applicant.
Al Colletti, Dr. C. A. Getschine,
Evelyn E. Grantham, Helen E. Heieck,
K. W. Jeffries, R. B. Sintzel,
Raymond Wells, and Francis Pollard,
 for themselves; protestants.
Lucile J. Lamb, interested party.
Edward C. Crawford and Chester O. Newman,
 for the Commission staff.

O P I N I O N

Applicant, Deer Lake Water Corporation, seeks herein authority to increase its rates for water service and to issue 2,500 shares of its common stock. Such service is rendered at present to 57 customers in Deer Lodge Park, a subdivision situated about four miles northeast of Bluejay, San Bernardino County.

Public hearing was held before Examiner Main on May 16 and 17, 1967 at Lake Arrowhead. The matter was submitted on the latter date subject to the receipt of late-filed Exhibits 2 and 5 on or before May 30, 1967. After encountering some difficulties, applicant completed the filing of said exhibits on June 16, 1967.

Prior to the first day of hearing, which was attended by approximately 30 of applicant's consumers, notice thereof was published and mailed to customers as required by the Commission.

Applicant was incorporated in the State of California on September 3, 1957. Its original incorporators were William M. Noe, Hazel V. Noe, and Charles Krause; its articles of incorporation provided for the issuance of 2,500 shares of common stock having a \$10 par value, none of which have been issued; and its acquisition of the water system in the Deer Lodge Park subdivision was made in 1957. By Decision No. 56529 dated April 15, 1958 in Cases Nos. 6002 and 6006, it was declared to be a public utility subject to the jurisdiction of this Commission.

During 1965, William M. Noe sold his ownership interest in applicant, which was represented as the full ownership of applicant, to Bien Corporation, a development company, whose president is William M. Noe II. In a related transaction, Bien Corporation had previously arranged for the purchase of about 600 lots in the Deer Lodge Park subdivision from the Arrowhead Investment Corporation, an entity wholly owned by William M. Noe.

During 1965, applicant through Bien Corporation rebuilt the existing water system almost in its entirety and expanded the system to provide service to a substantial part of the subdivision now under redevelopment. Such redevelopment, after many years of inactivity, raises, as a fundamental question, the adequacy of existing and potential sources of water supply. This general area is known to pose problems in developing water supplies adequate for extensive land development. Typically the local ground water

sources are not only of low yield but are called upon at the low point in their supply capability to meet large water requirements during the summer months, with peak demands occurring on hot holiday weekends such as July 4 and Labor Day, and with the fire hazard at the maximum.

Water System and Service

Applicant's principal source of water supply is a tunnel approximately 2,500 feet in length and 6 feet in diameter which serves as an infiltration and collection gallery. Two new wells are secondary sources. The water yield of the tunnel is not known but its storage capacity is estimated to be 300,000 gallons. The yield from the two wells was 57 gallons per minute based upon tests which were conducted in May 1966 for the so-called creek bed well and in February 1965 for the well in the northeasterly corner of the service area. It is apparent that the reliability of the production from these wells should be evaluated by adequate testing during a low water yield month such as September or October, and the tests should include well recovery measurements. A report prepared by applicant's consulting geologist sets forth the conclusion that applicant, from the tunnel and all other sources, should be able to develop a water supply of 50 gallons per minute.

Applicant's rebuilt and expanded distribution system, including the 6-inch feeder line from the tunnel, consists of 26,900 feet of water mains ranging from 1-inch to 6 inches in diameter. Present plans call for the area being divided into three pressure zones to meet the elevation requirements of service.

A 65,000-gallon tank, elevation 5250 feet, now serves the lower pressure zone, but backup facilities necessary to serve the intermediate and upper zones have not been installed. In the intermediate zone the built-on lots are situated at its lower elevations and are presently served from the 65,000-gallon storage or from a 9,000-gallon reservoir, elevation 5,290 feet. Applicant plans to remove this reservoir upon installing the additional backup facilities. There are no customers in the upper zone at present.

The old system consisted of small-diameter lines, many of which were not located in roadways or installed with a proper depth of cover; however, in Decision No. 58309 dated April 21, 1959 in Cases Nos. 6002, 6006 and 6088 and in Application No. 40406, after considering that the area consisted principally of mountain cabins and many of the approximately 60 customers were only weekend residents, the Commission stated that the investment by applicant should be kept at a reasonable minimum and found that the water system as then existing was reasonably adequate. The old distribution system was, it appears from the record herein, installed in a portion of the service area containing between 200 and 300 building sites, whereas the rebuilt and expanded system covers an area containing between 500 and 600 building sites. In the Deer Lodge Park subdivision there are a total of about 1,700 lots equivalent to roughly 900 building sites. Under a temporary water supply permit issued by the San Bernardino County Department of Public Health, service by applicant is limited to sixty customers.

The following special restriction on water service is set forth in Rule No. 14D of applicant's tariff schedules on file with the Commission:

"The utility may limit supply of water to strictly household use during times of threatened or actual water shortage. No outside watering shall be permitted on Fridays, Saturdays or Sundays from May 30 through September 30."

Since it has been applicant's practice to restrict its customers' water usage to household necessities each summer, it appears that applicant's water supplies have not been adequate for normal public utility water service.

Other service problems include the exposure of water mains to freezing before being re-covered after severe soil erosion and difficulties encountered by some customers in reaching the utility's local representative because his name, address and telephone number were not known to them. Applicant proposes to take the indicated remedial actions.

Rates

Applicant's present tariffs include rates for annual general flat-rate service and annual general metered service, which have been in effect since January 5, 1960. Applicant proposes to increase the annual flat-rate charge and the annual meter rate minimum charge by 140 percent. A comparison of applicant's present rates, those requested by applicant, and those authorized herein is as follows:

Flat Rates

	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
Annual charge for each service connection	\$45.00	\$108.00	\$72.00

Meter Rates

	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
Annual minimum charge per meter	\$45.00	\$108.00	\$66.00
Quantity Rates per meter per month:			
First 500 cu. ft. or less, included in annual minimum charge	-	-	-
Over 500 cu. ft., per 100 cu. ft.	.30	.35	.35

The 57 existing customers are served under the flat-rate schedule and pay the annual charge in advance. Approximately 12 of these customers are year-round residents, and the remainder are seasonal or weekend residents.

Results of Operation

At this stage in the development of applicant's service area, its low customer density and small number of total customers must be suitably treated in a results of operation study if the study is to be useful for rate-making purposes; otherwise an undue burden would result for existing customers. Further, under the present unfavorable economics of operation of this utility, the land development interests controlling applicant should bear a substantial portion of the costs, especially since the old system which has been replaced was reasonably adequate for the existing customers.

Summarized in the following tabulation are the estimated results of operation for the test year 1966, under present water rates and those proposed by applicant, as presented by applicant in

Exhibit 1 and by the staff in Exhibit 3. Operational results for 1967 should not be appreciably different from those in the test year. However, the Commission takes notice of the fact that the state corporation franchise tax rate was increased from 5½ percent to 7 percent on July 29, 1967, applicable to earnings for the year 1967. The adopted results of operation at the rates hereinafter authorized are also shown below and reflect the use of the increased tax rate in order to make the test year results representative of future operations.

Estimated Results of Operation - Test Year 1966

Item	Present Rates		Proposed Rates		Adopted
	Applicant	Staff	Applicant	Staff	
Operating Revenues	\$ 2,925	\$ 2,925	\$ 7,020	\$ 7,020	\$ 4,620
<u>Deductions</u>					
Operating Expenses	3,610	2,200	3,610	2,200	2,200
Depreciation	1,649	690	1,649	690	690
Ad Valorem Taxes	520	200	520	200	200
Taxes on Income	100	100	100	1,040	420
Total Deductions	<u>5,879</u>	<u>3,190</u>	<u>5,879</u>	<u>4,130</u>	<u>3,510</u>
Net Revenue	(2,954)	(265)	1,141	2,890	1,110
Rate Base	53,587	27,700	53,587	27,700	27,700
Rate of Return	-	-	2.1%	10.4%	4%

() Red Figure

Both the applicant and the staff base their revenue estimates upon serving 65 customers during the test year and have computed identical revenues. The operating expenses of \$3,610 as estimated by applicant exceed those estimated by the staff by \$1,410. There are numerous individual differences within the functional buildup of these estimated expenses. The staff estimates represent an evaluation of applicant's estimated expenses in

conjunction with expense levels which the staff considers reasonable for a utility of this size and set of operating characteristics, i.e., 65 customers, flat-rate water service, annual billings, predominantly summer or weekend residents, no purchased water costs, a \$200 power expense for the test year, and personnel which can perform work functions for applicant and its associated companies.

The estimates of rate base and depreciation expense of applicant differ substantially from those of the staff. Applicant considers that the utility plant, including certain backup facilities and the replaced portion of the distribution system, used to serve existing customers is includable in rate base and in computing depreciation expense; the remaining utility plant, which has been installed to serve future customers, is excluded by applicant. The staff considers that the present system could serve about 540 customers and applied a saturation factor of 13 percent, which represents the estimated near future number of 70 customers divided by the 540 potential customers, to adjust most of the utility plant. The average adjusted utility plant for the test year was estimated to be \$52,670 by applicant and \$30,300 by the staff. For comparison, the depreciated original cost of the old system was \$22,230 at the end of 1964.

Applicant's adjustments to utility plant do not recognize the low customer density in the area served by the replaced portion of the distribution system, and its results are further burdened by a negative depreciation reserve attributable to the undepreciated portion of utility plant in the old system under normal accounting for plant retirements.

The staff erred in applying the saturation factor to services; conversely, the staff erred in not applying the factor to hydrants. These are errors which tend to compensate. While utility plant as adjusted by the staff is greater than the depreciated cost of the old system, this is not unreasonable because the new plant will result in some improvement in service to existing customers.

Ad valorem taxes estimated by the staff represent the 1966-67 tax rates and an assessed valuation based upon the affidavit furnished to the assessor. While no federal income tax will be payable for the next several years due to the investment credit carry-over from additions to utility plant made in 1965, the staff income tax computations are consistent with its other estimates and its use of a saturation adjustment.

Rate of Return

The staff recommends a rate of return of 4 percent on a rate base of \$27,700 based upon a consideration of the following factors: (1) The percentage increase in gross revenues which would result over revenues at present rates and its impact on the consumers; (2) recent substantial improvements to the existing system at high current costs which were made with the primary motivation being to enhance the sale of lots; (3) the small number of customers presently served by this utility does not permit the operating economies of larger utilities.

The staff rate base of \$27,700 represents in excess of \$400 per customer based on serving 65 customers.

We are concerned that applicant has not shown on this record that a water supply can be developed, in conjunction with economically feasible storage facilities, which would be adequate to protect the interests of both existing and prospective customers under substantial further development of the area. At this time we therefore consider the staff recommendation on rate of return to be reasonable. When applicant can show to the satisfaction of the Commission that water supplies are adequate to serve this area as it develops without continuing to restrict water use to strictly household purposes during the summer, a more normal rate of return would be warranted.

Financing

Applicant proposes that 2,500 shares of its common stock having a par value of \$10 per share be issued to Bien Corporation in payment for \$20,120 of notes payable and \$29,880 of advances from associated companies.

No part of the proposed stock issue is to be used to refund losses from operation. For this purpose and others, a proposed sale of five acres of land by applicant to Bien Corporation would provide \$25,000.

The staff analysis of applicant's financial status at September 30, 1966, reflecting the proposed issuance of stock and land sale and reflecting the portion of the new system extending beyond the original system as an advance for construction, indicates a pro forma ratio of 37.7 percent advances to net plant, which is within the 50 percent limitation of applicant's main extension rule.

Applicant avers that the five acres of land to be sold is not presently used in utility operation nor is it contemplated that it will be so used in the future. This land is part of the 10 acres owned by applicant at the collecting tunnel.

Findings and Conclusion

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 4 percent on the adopted 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. Applicant's proposed issuance of 2,500 shares of common stock at \$10 par value per share for the purposes set forth in the application and the proposed accounting of debiting notes payable for \$20,120 and open advances for \$29,880 and crediting capital stock in the amount of \$25,000 and premium on capital stock in the amount of \$25,000 are not unreasonable.

3. The adequacy of water supplies to serve the new development potential of applicant's service area has not been shown on this record.

4. Applicant's maintenance practices for buried mains exposed by storms or other causes have been deficient; henceforth, the indicated repairs should be made as soon as practicable.

5. Applicant has not entered into main extension contracts with subdividers or individual lot owners as required by its main extension rule.

6. The straight-line remaining-life depreciation rates set forth in Table 3-A of Exhibit 3 are reasonable for applicant's plant other than pumping equipment. The depreciation rate for pumping equipment should be 2.9 percent based upon a 30-year remaining life.

7. Applicant has not kept current the system map prescribed by General Order No. 103.

8. The sale made by William M. Noe of his ownership interest in applicant, a corporation, to Bien Corporation does not require Commission authorization; heretofore applicant has not been authorized, however, to issue stock or other evidence of interest or ownership.

9. The five acres of land which applicant proposes to sell to Bien Corporation for \$25,000 is represented by applicant as not being used and useful utility plant; the proposed sale would require Commission authorization if the land were used and useful plant but not otherwise.

The issue of securities herein authorized is reasonably required for the purposes specified herein and such purposes are not in whole or in part reasonably chargeable to operating expenses or to income. Such authorization shall not be construed to be a finding of the value of applicant's stock.

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 therein.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant, Deer Lake Water Corporation, is authorized to file the revised rate schedules attached to this order as Appendix A. Concurrently, applicant shall cancel its presently-effective Schedule No. 1, Annual General Metered Service, and Schedule No. 2, Annual General Flat Rate Service. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be January 1, 1968 or four days after the date of filing, whichever is later. The revised schedules shall apply only to service rendered on or after the effective dates thereof.

2a. On or after the effective date hereof and on or before March 31, 1968, applicant may issue not more than 2,500 shares of common stock of the par value of \$10 per share for the purposes specified in the application.

2b. Applicant shall file with this Commission a report or reports as required by General Order No. 24-B, which order, insofar as applicable, is made a part of this order.

3. For the year 1967, applicant shall apply the depreciation rates set forth in Table 3-A of Exhibit 3, as modified by the findings in the foregoing opinion. 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: (a) Subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (b) dividing the result by the estimated remaining life of

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

4. Applicant shall take the necessary measures to maintain the proper depth of cover over its distribution mains.

5. Applicant shall prepare and keep current the system maps required by paragraph I.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 these maps.

6. Within ninety days after the effective date of this order, applicant shall have taken the necessary steps to make its prior main extension practices fully conform to its main extension rule. For this purpose applicant shall use the standard main extension contracts included in its tariff schedules on file with the Commission to cover each main extension. Within ten days after executing such contracts, applicant shall notify the Commission in writing of that fact.

7. On or before May 15, 1968, applicant shall install a suitable measuring device at each source of supply in order that a record may be maintained, as required by General Order No. 103, of the quantity of water produced by each source. Thereafter at least once a month, the quantity produced from each source of supply shall be determined and recorded. Within ten days after complying with this requirement, applicant shall so notify the Commission in writing.

8. Applicant shall have the necessary tests performed on its existing wells during September, 1968 to determine their maximum safe pumping capacities. Within ten days after completion of these tests, applicant shall report their results in writing to the Commission.

9. Within ninety days after the effective date of this order, applicant shall report to the Commission in writing as to the progress being made in obtaining a permanent water supply permit. Applicant shall continue to make such written progress reports every ninety days thereafter until such permanent permit has been obtained.

10. On each occasion when applicant restricts water usage by its customers to household purposes other than on weekends as provided for in Rule 14-D of its filed tariffs, applicant shall report to the Commission in writing within ten days after imposing such restriction its production capability, the storage capacity of its facilities, and the number of customers then being served.

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

Dated at San Francisco, California, this 14th day of NOVEMBER, 1967.

Robert E. Mitchell
President
William L. Brown
Augustin
William Agnew
Paul P. Monussey
Commissioners

Schedule No. 1A

(T)

ANNUAL METERED SERVICE

(T)

APPLICABILITY

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

TERRITORY

Deer Lodge Park and vicinity, located near Lake Arrowhead, San Bernardino County.

(T)

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Monthly Quantity Rates:		
First 500 cu.ft. or less	\$5.50	(I)
Over 500 cu.ft., per 100 cu.ft.	0.35	(I)
	<u>Per Meter</u> <u>Per Year</u>	
Annual Minimum Charge:		
For 5/8 x 3/4-inch meter	\$66.00	(I)

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.

(N)

(N)

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 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

(T)

(T)

(Continued)

Schedule No. 1A

(T)

ANNUAL METERED SERVICE
(Continued)

(T)

SPECIAL CONDITIONS (Contd.)

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 except that meters may be read and quantity charges billed during the winter season at intervals greater than three months.

(T)

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.

(T)

Schedule No. 2RA (T)

ANNUAL RESIDENTIAL FLAT RATE SERVICE (T)

APPLICABILITY

Applicable to all flat rate residential water service furnished on an annual basis. (T)
(T)

TERRITORY

Deer Lodge Park and vicinity, located near Lake Arrowhead, San Bernardino County. (T)
(T)

RATE

	Per Service Connection	(T)
	<u>Per Year</u>	(T)
For a single-family residential unit, including premises	\$72.00	(I)

SPECIAL CONDITIONS

1. The above flat rate applies to a service connection not larger than one inch in diameter. (T)

2. For service covered by the above classification, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum meter charge for the same period shall be made on or before that day.

3. The annual flat rate 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 may elect, at the beginning of the calendar year, to pay prorated flat rate charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. (T)

(Continued)

Schedule No. 2RA

(T)

ANNUAL RESIDENTIAL FLAT RATE SERVICE
(Continued)

(T)

SPECIAL CONDITIONS (Contd.)

4. The opening bill for flat rate service shall be the established annual flat rate 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.

(T)

(T)