

ORIGINALDecision No. 74908

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 THE SUMMIT GROUP, a California)
 limited partnership, Richard Alderson)
 and Ronald Dunton, general partners,)
 et al., doing business as LOMA PRIETA)
 WATER COMPANY, under Section 454 of)
 the Public Utilities Code, for author-)
 ity to increase rates for water)
 service.)

Application No. 50343
 Filed June 24, 1968

Ronald Dunton, for applicant.
N. Warren Sheldon, in propria persona,
 protestant.
John D. Reader, for the Commission
 staff.

O P I N I O N

The Summit Group, a California limited partnership, doing business as Loma Prieta Water Company, seeks authority to increase rates for water service in unincorporated territory of Santa Cruz County.

Public hearing was held before Examiner Coffey, in Santa Cruz, on September 4, 1968. Notice of hearing was mailed to customers in accordance with this Commission's rules of procedure. The matter was submitted on September 6, 1968, upon the receipt of Exhibit No. 2.

Testimony on behalf of applicant was presented by one of the two general partners of The Summit Group who also appeared in this proceeding for the Group. A Commission staff engineer presented the results of a field investigation of applicant's operations. Of the eight customers served by the utility, five were

present at the hearing. The Summit Group furnishes water service without a separate charge to two of its tenants who were not present. Applicant has requested, by Application No. 50203, that it be authorized to serve these two properties as public utility customers. Applicant, in consideration of the demonstrated cooperation of its customers, and those customers present having noted the expense of protesting the rates requested by applicant, indicated their willingness to accept the staff recommended rates.

Utility History and Service Area

The principal interest of applicant, The Summit Group, a limited partnership composed of two general partners and 15 limited partners, is to invest in, buy, develop, lease and/or sell real estate. The Group in the pursuit of its principal interest became the owner of a water system which for many years had rendered service to customers without authorization by this Commission.

Decision No. 72108, Case No. 8356, dated March 7, 1967, found the Group to be a public utility water system and required it to serve three customers in the Santa Cruz Mountains between Highland Way and Loma Prieta Avenue in Santa Cruz County near the boundary with Santa Clara County. By Decision No. 74846, Cases Nos. 8742 and 8752 and Application No. 50203, dated October 22, 1968, the utility was ordered to serve five additional customers. The service area is in the immediate vicinity of land, a well and buildings owned by the Group.

Water System

The system obtains its water from a spring located about one mile from the service area. The water flows through a 1-inch diameter transmission pipe into a 1500-gallon storage tank. Three customers obtain their supply from this tank through a small booster

pump, and the others by gravity flow. Occasionally, water is brought in by tank truck. By Decision No. 74846, the utility was required to reconnect to the system a spring and any tank or tanks in the vicinity of the 1500-gallon storage tank.

Rates

Applicant's present rate for limited flat rate service was ordered to be filed by Decision No. 72108, dated March 7, 1967. Applicant proposes to increase the present monthly flat rate from \$2.75 to \$74.47 for the next five years, and thereafter reduce it to \$54.19. The staff recommends a flat rate of \$16.50 per month. Based on the adopted results of operation, we will authorize a flat rate of \$11 per month plus a proration of any expense of purchased water.

Results of Operation Analysis

The plant items and expenditures shown in the application for the 12-month period ending March 24, 1968 are compared in the following tabulation with the Commission staff's estimates for the calendar year 1968 and with adopted results of rates authorized herein.

Results of Operation
(Estimated Year 1968)

Item	:Present Rates :Appli- : cant :		:Proposed Rates :Appli- : cant :		:Staff Rec- :ommended : Rates :	:Adopted: :Results:
Operating Revenue	\$ 253	\$ 264	\$4,468	\$7,150	\$1,585	\$1,012
Operating Revenue Deductions						
Purchased Power	67	80	67	80	80	80
Payroll	1,491	400	1,491	400	400	384
Maintenance Materials	420	50	420	50	50	50
Purchased Water	120	120	120	120	120	-
Vehicle Expenses	420	100	420	100	100	100
Property Taxes	-	30	-	30	30	30
Uncollectibles	-	10	-	140	50	-
Rate Case	1,928	100	1,928	190	190	70
General Expenses	363	300	363	300	300	100
Contracted Services	1,527	-	1,527	-	-	-
Total Oper.Rev.Deductions	6,236	1,190	6,336	1,410	1,320	814
Depreciation	-	80	-	80	80	80
Income Tax						
(1% State; 15.4% Federal) ...	-	-	-	1,100	35	17
Net Operating Revenues ...	(6,033)	(1,006)	(1,868)	4,560	150	101
Rate Base	5,500	2,100	5,500	2,100	2,100	2,000
Rate of Return	-%	-%	-%	217%	7%	5%

(Loss)

Applicant's showing does not include depreciation reserve, depreciation expense, working cash, materials and supplies and return on investment. The staff has examined applicant's expenditures and considers a substantial portion of them to be due to initial capital improvements after the takeover by the present owners. These include surveying the system to determine locations of mains, relocating some mains, disconnecting unauthorized users, improvement in source of supply, development of a standby source and elimination of leaks. Future operating expenses are estimated to be lower than in the recent past since applicant will perform substantially all the work itself instead of hiring contractors and plumbers. The staff's 1968 estimate reflects normalized, average conditions of operations.

The staff's operating revenues are based on the assumption that eight customers will receive service from the system. Applicant assumes that there will be only five customers.

The adopted revenues are based on eight customers being charged the adopted rate and include an allowance for premise vacancies in lieu of the staff allowance for uncollectibles.

There are presently five meters installed at strategic locations within the system to determine or detect leaks, waste and unauthorized withdrawal of water from the system. The staff's operating expense estimates are based on the assumption that customers will continue to restrict their water use, particularly during the dry summer months.

For a 12-month period, applicant's purchased power was recorded as \$67. To compensate for two missing monthly bills the staff estimated the full-year purchased power expense to be \$80.

The staff estimated that eight hours per month for billing, supervising, maintenance and other payroll expense would be required at an average rate of \$4 per hour. Applicant testified that its customers have been very cooperative in their assistance with the water system operation. The customers of applicant can reduce applicant's expense substantially with continued and further cooperation. For instance, the customers upon being informed of the flat monthly rate herein authorized should pay the authorized constant amount without the need of reminding by the receipt of a monthly bill from applicant. It behooves applicant's customers to cooperate in all ways possible because minimization of applicant's expenses will result in minimum rates for water service. We find the basis of the staff estimate of payroll to be reasonable.

The staff allowance for purchased water of \$120 will not be included in the adopted results. While this record indicates that applicant purchased and trucked water twice, we do not know that water was purchased before applicant disconnected the spring and storage facilities which it was ordered to reconnect to its system by Decision No. 74846. In place of this allowance we will permit applicant to recover from its customers the actual cash expense of any purchased water.

If a customer ceases to cooperate in restrictive water use, applicant should request authorization of a meter rate schedule which would compensate applicant for the cost of purchased water and prorate the costs of operation proportional to consumption.

It is not appropriate for applicant to recover from the customers its regulatory expense resulting from successful customer complaints. The adopted rate case annual expense is one-fifth of the staff estimated expense to applicant of formal applications to the Commission.

It is not necessary or appropriate that applicant be given a general expense allowance for office space, furniture, typewriter, exchange telephone, and tax services. The adopted general expenses reflect our estimate of the actual out-of-pocket costs to applicant which arise because applicant operates a water system incidental to its principal interest of investment in real estate.

Rate Base

The staff's rate base is \$3,400 less than that of applicant. At the time the system was acquired by applicant the staff considers the plant to have been fully depreciated, undepreciable plant amounting to \$100. Improvements installed by applicant are estimated by the staff to total \$1,900. The staff rationalized

that the funds collected from the application of flat rates in advance of expenditures would not be sufficient to cover the average of deposits required by a bank for a commercial account. The record does not demonstrate the need of or use by applicant of a separate checking account for its utility operations. We will adopt the staff rate base, modified to eliminate an allowance of \$100 for working cash.

Rate of Return

Considering the quality of service rendered, the history of the utility, the improvements effected by applicant and the requirements for further capital additions and service improvements, we will adopt 5 percent as a fair and reasonable rate of return.

Service

The staff witness testified that facilities were in very poor condition until the present owner expended considerable amounts of money to remedy several of the deficiencies. The spring flow decreases during summertime to less than one gallon per minute, making it necessary occasionally to bring in water by tank truck. Further capital expenditures are required to improve the system. These improvements would consist of replacement of old and leaky pipes, burying exposed pipes and enclosing the facilities to prevent interference by unauthorized persons.

Accounting Records

Since being declared a public utility applicant has not yet set up Books of Account as required by the Commission's Uniform System of Accounts for Class D Water Utilities.

Depreciation

The staff used a depreciation rate of 4 percent which it believes to be fair and reasonable in view of the type of

installation. Applicant should use this rate for the next five years and review it periodically in accordance with Commission authorized practices.

Findings and Conclusion

The Commission finds that:

1.a. Applicant is in need of additional revenues but the rates proposed by both the applicant and the staff are excessive.

b. The adopted estimates, previously summarized and discussed herein, of operating revenues, operating expenses and rate base for the test year 1968 reasonably represent the results of applicant's future operation.

c. A rate of return of 5 percent on a rate base of \$2,000 is reasonable.

d. The increases in 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. A depreciation rate of 4 percent is fair and reasonable.

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

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, The Summit Group doing business as Loma Prieta Water Company, is authorized to file the rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the tariff schedule shall be four days after the date of filing. The tariff schedule shall apply only to service rendered on and after the effective date thereof.

2. Applicant shall establish for the year 1968 and thereafter maintain formal books of account in conformity with the Commission's prescribed Uniform System of Accounts for Class D Water Utilities.

3. For the year 1968, applicant shall apply a depreciation rate of 4 percent to the original cost of depreciable plant. Until review indicates otherwise, applicant shall continue to use this rate. Applicant shall review its depreciation rates at intervals of five years and whenever a major change in depreciable plant occurs. Any revised depreciation rate shall be determined by: (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the result by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

4. After the effective date of this order, applicant is authorized to file a revised tariff map indicating the area or lots served. Such filing shall comply with General Order No. 96-A.

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

Dated at San Francisco, California, this 6th day of NOVEMBER, 1968.

William J. Synovis, Jr.
President

William L. Bernard

Rogers

H. J. P. Moussey
Commissioners

APPENDIX A

Schedule No. 2LR

LIMITED RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all limited flat rate residential water service.

TERRITORY

The premises of the 8 customers listed below in Special Condition 2, located approximately 2 miles north of Skyland in the Santa Cruz Mountains, Santa Cruz County.

<u>RATE</u>	<u>Per Service Connection Per Month</u>	
For a single-family residential unit, including premises	\$11.00	(I)

SPECIAL CONDITIONS

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

2. Service under this schedule shall be limited to the premises occupied, as of July 1, 1968, by the following 8 customers:

- | | | |
|----------------------|------|-----------------|
| a. N. Warren Sheldon | e. * | (C)

(C) |
| b. Percy C. Weston | f. * | |
| c. William Stoyding | g. * | |
| d. * | h. * | |

3. Not more than one single-family residential unit will be served at any time on each of the premises identified in Special Condition 2.

4. Each customer occupying the premises identified in Special Condition 2 shall pay a proportional share of the actual cash cost of any purchased and transported water equal to the total of the cost of the water divided by the number of premises that benefit from the water purchase.

* Applicant shall enter customer's name before filing tariff sheet and delete this note and asterisks.