

ORIGINALDecision No. 74980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 STRAWBERRY HEIGHTS WATER COMPANY)
 under Section 454 of the Public)
 Utilities Code for authority to)
 increase rates for water service..)

Application No. 50184
 Filed April 23, 1968

Orrick, Herrington, Rowley & Sutcliffe, by
James F. Crafts, Jr., for applicant.
Ryan M. Polstra, of Malone, Dennis, Schottky &
Pearl, for Strawberry Heights Improvement
 Association, protestant.
John J. Gibbons, for the Commission staff.

O P I N I O N

The Strawberry Heights Water Company, a California corporation, seeks authority to increase its rates for water service in the unincorporated territory of Strawberry near Kyburz, El Dorado County.

Public hearing was held before Examiner Coffey in Kyburz on August 1 and 2, 1968. Copies of the application had been served and notice of hearing had been mailed to customers in accordance with this Commission's rules of procedure. The matter was submitted on August 19, 1968 upon the receipt of four late-filed exhibits.

Testimony on behalf of applicant was presented by the president and sole owner of the corporation. A staff engineer and a financial examiner on the staff of this Commission presented the results of their field investigation of applicant's operations. Plant facilities were inspected, pressures checked, customers interviewed and applicant's records examined. The Strawberry Heights Improvement Association, an organization of property owners in

Strawberry, and seven customers testified relative to the quality of utility service and protested the rate increase.

Service Area and Water System

This utility presently serves about 78 residents, one lodge, one motel and one garage.

Applicant obtains water from one well and three springs with a total capacity of 105 gpm. The well is equipped with a submersible pump driven by a 220-volt, 3-phase motor. Well water is pumped directly into the distribution system with excess water flowing into the main storage tank. There are three storage tanks with capacities of 50,000, 50,000 and 40,000 gallons, respectively. The distribution system consists of approximately 5,640 feet of standard screw pipe ranging in size from 3/4 to 4-inches, and 2500 feet of plastic pipe ranging in size from 2-1/2 to 3-1/2 inches.

Applicant recognizes that the water system is deficient in purity, supply and winterizing. It proposes to correct the deficiencies.

The El Dorado County Health Department, in 1967, notified all customers of the utility that the water served by the utility was not safe for human consumption. A representative of the department testified that, in his opinion, the water presently is in the same condition. Applicant proposes to install chlorinating equipment to purify the water entering the distribution system from the springs at an approximate cost of \$700. However, in view of the changes in proposals to obtain additional quantities of water hereinafter reviewed, this estimate cannot be considered to be reliable.

Applicant concedes that the present water supply is inadequate for customer demand. In its application, the utility proposed to install 1-3/4 miles of pipeline between Forni Lake and

its storage tanks at a cost of approximately \$8,000. At the hearing applicant indicated that currently the plan was to obtain additional water by connecting to the penstock of a privately owned electric plant. The cost of the revised plan was estimated to be the same as that of the plan originally proposed. However, the utility is presently obtaining water by pumping it directly from the south fork of the American River.

Applicant proposes, in the application, to completely winterize the distribution system by placing more dirt on top of the water pipes to bury them below the frost line and by constructing a cave of concrete and earth to replace the pump house which was burnt down during attempts to thaw pump inlet and outlet piping. Applicant estimated the cost of winterizing to be \$3,000. We note that page 3 of Decision No. 67747, Application No. 46197, for Otto Schaefer to sell the Strawberry Heights Water Company, puts Charles and Mary Pavka on notice that:

"It having been certified by Applicant Schaefer that all mains have been installed in accordance with General Order No. 103 if it shall be found hereafter that any main or mains are not so installed, Applicant Pavka will be required to bury such main or mains to a proper depth and the costs of reinstallation shall not be recorded in the plant accounts."

From testimony it appears that this winterizing may now consist of protecting the pump and its associated piping.

Rates

At the present time all of the 78 residences are being served at flat rates. The three unmetered business customers are not being billed because no rates are presently applicable. By this application, applicant requests authority to establish rates for metered service.

The staff proposes that flat rates also be established for commercial enterprises as metered services cause unnecessary expense in areas of heavy snow and frost when there is little consumption.

The staff suggested, and applicant's president agreed, that annual rates should be established. This prevents avoidance by users of their fair share of the cost of operation by having their services disconnected during their absence.

The staff also recommends that the quantity blocks in applicant's proposed metered service schedule be similar to those now effective for other utilities in the area.

The following tabulation, set forth in staff Exhibit No. 1, compares monthly charges by applicant at present and proposed rates with charges by Donner Lake Utility Company and with those recommended by the staff, assuming a 1-inch service connection when comparing flat rates.

Rate Comparison

Monthly Consumption Cubic Feet	Per Connection Per Month					
	Applicant			Staff		Donner Lake
	Present	Proposed	Incr. %	Recom.	Incr. %	Utility Co.
0	\$0.0	\$11.54*	-%	\$ 6.00	-%	\$ 6.75
500	-	11.54	-	6.00	-	6.75
1,000	-	11.54	-	6.00	-	7.43
1,500	-	11.54	-	8.00	-	8.99
2,000	-	11.54	-	10.00	-	10.34
3,000	-	11.54	-	14.00	-	13.04
<u>Flat Rate Service</u>						
First Single						
Family Unit	\$2.08	\$11.54	455%	7.50	260%	\$ 6.75
Additional Unit	-	11.54	-	5.00	-	-
Premises in excess						
of 7500 sq.ft.						
per 100 sq.ft.	-	.02	-	-	-	-

* Minimum covers 3,200 cubic feet.

This Commission has reviewed the flat rate tariffs of 16 other water utilities located in El Dorado County and notes that they range from \$3 to \$6.50 per month. Eleven of the 16 flat rates were \$6 or higher per month. While a detailed comparison of utility operations has not been undertaken by the Commission, it does not appear appropriate to compare the proposed rates of applicant and the staff with the Donner Lake Utility Company, which has approximately 578 customers and is not located in the same county as applicant.

Applicant proposes that the annual flat rate cost of water for a single-family unit increase from \$25 to \$138.48, an increase of 455 percent; and the staff proposes for the same service an annual increase from \$25 to \$90, an increase of 260 percent.

We shall hereinafter authorize applicant to increase its annual flat rate for service to a single-family unit to \$37.50 per year, an increase of 50 percent.

Results of Operation

The results of operation for the year 1968 as estimated by the applicant and by the staff, at present, proposed and staff recommended rates are compared with the results of operation adopted by this Commission.

Results of Operation

Item	Estimated Year 1968					
	Present Rates		Proposed Rates		Staff	Adopted:
	Applicant:	Staff	Applicant:	Staff	Recom. Rates:	Rates:
<u>Operating Revenues</u>						
Unmoterred Water Revenue	\$ 1,950	\$ 1,950	\$12,000	\$12,000	\$ 8,170	\$3,500
<u>Operating Expenses</u>						
Power	-	60	350	60	60	350
Payroll	-	2,330	6,000	2,330	2,330	2,400
Repairs	-	200	200	200	200	-
Repair Material	-	-	-	-	-	50
Office Supplies	-	150	150	150	150	100
General Expenses	-	500	1,000	500	500	120
Vehicle and Travel Expense	-	480	480	480	480	200
Unidentified Expenses	1,257	-	-	-	-	-
Uncollectibles	-	30	-	110	80	-
Rate Case	-	50	-	50	50	-
Total Oper. Expenses	1,257	3,800	8,180	3,880	3,850	3,220
Depreciation Expense	873	1,020	873	1,020	1,020	-
Property Taxes	180	180	180	180	180	180
Fed. Inc. Taxes (22%)	-	-	566	1,420	640	-
Corp. Franchise Tax (7%)	100	100	194	480	220	100
Total Oper. Rev. Deduc.	2,410	5,100	9,993	6,980	5,910	3,500
Net Operating Revenues	(460)	(3,150)	2,007	5,020	2,260	-
Rate Base	27,632	32,300	26,492	32,300	32,300	-
Rate of Return	-	-	7.6%	15.5%	7.0%	-

(Red Figure)

The staff estimates that, if applicant's proposed improvements are completed, pumping costs will be reduced from \$350 to \$60 per year. The staff also considers applicant's estimated 1968 payroll and general expenses excessive and reduced them by about 60 percent on the assumption that a utility of this size should not be burdened with \$3,000 in employee wages, \$3,000 in management salaries and \$300 in accounting and legal services. Other expense estimates of applicant were accepted by the staff.

The applicant included \$11,700 in the rate base as the estimate of the plant additions for a chlorinator, the new main and winterizing. We are unable to determine from this record what plant additions actually will be made and the cost thereof. For the

amount of net investment the staff and applicant relied upon an appraisal made by the utility in 1963 for amounts to be included in the rate base since applicant's predecessor had no records. This appraisal, proportionately decreased by the staff at that time to reflect original cost in 1948 has not been reviewed by the Commission since the applicant withdrew its rate increase application (No. 45400) for which it had prepared the appraisal. We are unable to determine from this record the source of the \$5,850 difference between the applicant and the staff in their estimates of average plant. We note that both the staff and applicant included in their rate bases an allowance of \$500 for working cash. This allowance is not appropriate since annual flat rates are proposed.

Adopted Results

The presently effective rates were established by the Commission in Decision No. 49827, dated March 23, 1954, in Application No. 34877.

Applicant's predecessor filed an application (No. 45400) in 1963 requesting a rate increase. The application was dismissed for lack of prosecution by Decision No. 67381, dated June 16, 1964, a transfer of ownership being in process.

By Decision No. 73012, dated September 6, 1967, Application No. 49601, the utility was authorized to convert from a proprietorship to a corporation, with the aggregate par value of its capital stock being \$20,000. The conversion of the utility to corporate form was part of the process by which the president acquired all of the stock of the utility for an investment of \$13,000.

Applicant's president testified that he expected to finance the projected additions with a bank loan guaranteed by his assets. He was assured the loan would be available if the Commission granted a rate increase.

The record indicates that the water system of applicant may be purchased by the El Dorado Irrigation District.

Considering the foregoing, the uncertainty of the installation of proposed plant additions, the lack of water suitable for human consumption, the absentee management without adequate local supervision, the financial needs of the utility, and the value of the service, the Commission will adopt rates which will permit applicant to recover reasonable out-of-pocket expenditures. Upon demonstration by the utility that it has an adequate, safe and reliable supply of water, has provided for reliable and responsible local supervision and maintenance of the water system, and upon the presentation of reliable estimates based on actual operating conditions, this Commission will consider further rate relief for applicant. The need for annual metered service will be considered at such further presentation.

Service

This record is replete with evidence regarding the service deficiencies. Not only is there testimony that the water is not safe for human consumption, but this testimony demonstrates that the service under its present management is considerably worse than it had been under previous owners. Service to customers has been interrupted for extended periods of time without effective action by the utility's management.

On or about June 23, 1968, the president of the utility was advised at his home in Redwood City that no water was available. After numerous telephone calls and three days of delay, the president determined that there appeared to be trouble with the well. Having personal business in Hawaii, the president thereupon left this country for approximately a month, returning just prior to the

hearing. In the interim, the system was left under the supervision of the owner of a local commercial enterprise, who in exchange for free water, was to provide day-to-day supervision of the water system and to be sure adequate water supplies was available to customers. The local supervisor had authority to effect emergency repairs without prior authorization, but the authorization to make expenditures was limited to \$50 for any other work. No effective action was taken until the president returned from Hawaii and the El Dorado Irrigation District volunteered to pump water into the system from the nearby American River.

Findings and Conclusions

The Commission finds that:

1. Applicant is in need of additional revenues but the proposed rates set forth in the application and Exhibit No. 1 are excessive.
2. The adopted estimates, previously summarized and discussed herein, of operating revenues, operating expenses and rate base for the test year 1968 reasonably represent the cash expense required for applicant's future operations.
3. Due to the inadequate and unsafe service and the deficiencies in this record, it is reasonable not to consider at this time net operating revenue requirements and to set rates on consideration of value of service and operating cash requirements.
4. 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.

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 Strawberry Heights Water Company is authorized to file the new and revised rate schedule attached to this order as Appendix A. Such filing shall be made in accordance with General Order No. 96-A. The effective date of the revised tariff sheets shall be four days after the date of filing.

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.

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

Dated at San Francisco, California, this 26th day of NOVEMBER, 1968.

William A. L. ...
President

William L. Bernard

Commissioners

Commissioner A. W. Gatov, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Fred P. Morrissey, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 2A

ANNUAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate water service furnished on an annual basis.

(C)
(C)

TERRITORY

In Strawberry and vicinity near Kyburz, El Dorado County.

RATES

	Per Service Connection Per Year	
For a single-family residential unit, including premises	\$ 37.50	(I)
For each additional single-family residential unit on the same premises and served from the same service connection	30.00	(N)
For the Strawberry Lodge	375.00	
For the Strawberry Motel	100.00	
For the Strawberry Garage	60.00	(N)

SPECIAL CONDITIONS

1. The above residential flat rates apply to a service connection not larger than one inch in diameter.

(C)
(C)

(Continued)

APPENDIX A
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Schedule No. 2A

ANNUAL FLAT RATE SERVICE

SPECIAL CONDITIONS--Contd

2. 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.

(C)

3. 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 customers.

(C)