

**ORIGINAL**

Decision No. 75887

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of ARROWHEAD MANOR WATER COMPANY,  
a California corporation, for  
authorization to increase its  
rates for water service.

Application No. 49895  
(Filed December 18, 1967)

Arthur D. Guy, Jr., for applicant.  
Jerry J. Levander and Raymond E. Heytens,  
for the Commission staff.

OPINION ON FURTHER HEARING

By Decision No. 74888 dated October 29, 1968 the Commission granted Arrowhead Manor Water Company authority to increase its rates for water service. By Decision No. 75233 dated January 21, 1969 the Commission denied rehearing of Decision No. 74888 petitioned for by applicant and reopened the proceedings for the limited purpose of determining whether newly acquired utility plant should be included in applicant's rate base and whether applicant is thus entitled to an increase in its rates.

Further hearing for this limited purpose was held before Examiner Main in Los Angeles on March 25, 1969. Late filed exhibits were received as of April 14, 1969, and this further matter is now ready for decision.

Utility Plant Betterment

In the fall of 1968 applicant replaced water lines serving the sparsely developed Little Bear Creek Area which has about 23 customers at present. This installation of new mains and related items, which will provide year-round service to that area, was not reflected in applicant's rate base as determined in Decision No. 74888. Its total cost is stated to be as follows:

Material - Supplier: Waterco Supply

6500' - 4-1/2" CD 10 ga DD&W Steel Pipe . . .	\$6,408.68
5 - 4-1/4" V.O. A24010 hydrants . . . . .	884.71
6 - 4" fl. A2380-6 gate valves . . . . .	366.90
6 - 5/8 x 3/4 MEF SCF Hersey meters . . . . .	234.80
Fittings and Miscellaneous . . . . .	<u>419.56</u>

Subtotal	\$ 9,314.65
----------	-------------

Trenching	3,096.00
Welding	5,500.00
Contracted Labor	270.00
Company Labor	1,075.50
Miscellaneous	<u>40.00</u>

Total	\$18,296.15
-------	-------------

The following short term borrowings, which total \$17,500, provided the principal source of funds for the utility plant betterment.

Demand note in the amount of \$9,500 with interest at the rate of 7 percent per annum - Lender: E. A. Schoettmer, who borrowed \$5,500 of these funds from three water customers in Little Bear Creek Area and the balance, or \$4,000, from Lewis E. Bartleson.

Demand note in the amount of \$5,000 with interest at the rate of 9 percent per annum - Lender: Bank of America.

A \$3,000 loan, which corresponds in amount to the unpaid portion of materials bill, due in 120 days with interest at the rate of 8 percent per annum. Lender: Waterco Supply.

In Decision No. 74888 we expressed concern over the lack of data to establish the yield of applicant's water sources in dry years and over applicant's ability to obtain reasonable financing of proposed Phase I system improvements. Although applicant thus far has not allayed this concern, we are persuaded that in the circumstances applicant is entitled to some rate relief for the Little Bear Creek Area main replacement, a Phase I system improvement.

Its Rate Effect

Summarized below are the estimated results of operation for test year 1968 under the rates authorized in Decision No. 74888 and those authorized herein.

<u>Item</u>	<u>At Rates Authorized in Decision No. 74888</u>	<u>At Rates Authorized Herein</u> *
Operating Revenues	\$ 25,150	\$ 26,830
<u>Deductions</u>		
excluding Income Taxes	20,650	21,270
Income Taxes	1,130	900**
Total	<u>21,780</u>	<u>22,170</u>
Net Revenue	3,370	4,660
Rate Base	\$ 48,150	\$ 66,260
Rate of Return	7.0%	7.0%

\* The Little Bear Creek Area main replacement has been rolled-back to January 1, 1968.

\*\* Reflects investment tax credit for said main replacement which for this purpose has been spread over 3 years, i.e. the 3 percent credit is applied to one third of its cost.

We are not persuaded that a rate of return higher than 7 percent on the rate base increment corresponding to the Little Bear Creek Area main replacement is justified despite the prevailing level of interest rates. Applicant, as a small water utility not without problems of borderline economic feasibility and not without pressures from the Little Bear Creek Area residents, has carried out precisely the portion of Phase I improvements which does not benefit the bulk of its customers. A more suitable approach to financing this low customer density main replacement would have been to seek authority to use Main Extension Rule-type financing, the principle of which is not to burden the utility and its customers with extensions of questionable economic feasibility. In addition, the failure thus far to show applicant's sources of water supply to be adequate continues to be of concern and casts doubt on the ultimate effectiveness of this new construction.

On balance, however, rate relief at 7 percent rate of return is not unreasonable because year-round service has been made available to Little Bear Creek Area -- the only portion of active service area heretofore without year-round service. Also, seasonal rates, which do not tend to recoup a sufficient share of system fixed costs, may now be eliminated.

Applicant's present rates and those to be authorized by the order herein are summarized as follows:

Annual Metered Service

Annual Quantity Rates:	Per Meter Per Year	
	<u>Present Rates</u>	<u>Authorized Rates</u>
First 4,500 cu.ft., or less . .	\$45.00	\$47.00
Next 1,500 cu.ft., per 100 cu.ft.	.52	.52
Over 6,000 cu.ft., per 100 cu.ft.	.35	.35

Annual Residential Flat Rate Service

	Per Service Connection Per Year	
	<u>Present Rates</u>	<u>Authorized Rates</u>
For a single family residence or residential unit, including premises . . . . .	\$45.00	\$47.00
For each additional single family residence on the same premises and served from the same service connection. . .	25.00	32.00

Rates for seasonal service for the period May 1 through October 31, are to be discontinued.

Findings

The Commission finds that:

1. In the fall of 1968 applicant replaced mains and installed other utility plant in and to the Little Bear Creek Area at a cost of \$18,296.15.
2. Applicant is in need of additional revenues as a result of Finding No. 1 above; the operational results including the Little Bear Creek Area utility plant construction set forth hereinabove are reasonable; a rate of return of 7.0 percent on applicant's increased rate base is reasonable.

3. Year-round water service is now available to all of applicant's customers; rates designed for service other than in winter months are therefore no longer warranted.

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.

Conclusion

The Commission concludes that applicant is entitled to additional rate relief as set forth in the ensuing order but that in all other respects the order in Decision No. 74888 remains in full force and effect.

O R D E R

IT IS ORDERED that after the effective date of this order, applicant, Arrowhead Manor Water Company, 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, 1969, 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. Concurrently, applicant shall cancel its presently effective tariff sheets Nos. 105-W through 108-W.

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

Dated at San Francisco, California, this 8th day of JULY, 1969.

William Lyons Jr.  
President  
Arthur J. ...  
Robert M. ...  
...  
Commissioners

Schedule No. 1A

ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Cedar Glen and vicinity, located approximately one mile southeast of Lake Arrowhead, San Bernardino County.

RATES

	<u>Per Meter Per Year</u>	
Annual Quantity Rates:		
First 4,500 cu.ft. or less .....	\$ 47.00	(I)
Next 1,500 cu.ft., per 100 cu.ft. ....	.52	
Over 6,000 cu.ft., per 100 cu.ft. ....	.35	
	<u>Per Meter Per Year</u>	
Annual Minimum Charge:		
For 5/8 x 3/4-inch meter .....	\$ 47.00	(I)
For 3/4-inch meter .....	60.00	⋮
For 1-inch meter .....	75.00	⋮
For 1 1/2-inch meter .....	120.00	⋮
For 2-inch meter .....	180.00	(I)

The Annual Minimum Charge will entitle the customer to the quantity of water each quarter which one quarter of the annual minimum charge will purchase at the prorated quarterly Quantity Rates.

(Continued)

Schedule No. 1A

ANNUAL METERED SERVICE  
(Continued)

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing May 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 billing year, to pay prorated minimum charges in advance at intervals of less than one year, quarterly, in accordance with the utility's established billing periods for water used in excess of the prorated quarterly allowance under the annual minimum charge.

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 billing 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 billing 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.

Schedule No. 2RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Cedar Glen and vicinity, located approximately one mile southeast of Lake Arrowhead, San Bernardino County.

RATES

	<u>Per Service Connection Per Year</u>	
For a single-family residential unit, including premises .....	\$47.00	(I)
For each additional single-family residential unit on the same premises and served from the same service connection .....	32.00	(I)

SPECIAL CONDITIONS

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

2. For service covered by the above classification, if the utility 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.

(Continued)

Schedule No. 2RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE  
(Continued)

SPECIAL CONDITIONS (Contd.)

3. The annual flat rate charge applies to service during the 12-month period commencing May 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 billing year, to pay prorated flat rate charges in advance at intervals of less than one year quarterly in accordance with the utility's established billing periods.

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 billing 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 billing 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.