

ORIGINALDecision No. 76125

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of TAHOE SIERRA WATER COMPANY, a
Corporation, for authority to
increase rates for water service
rendered within the service area
of applicant, South Lake Tahoe
and vicinity, El Dorado County,
and in the vicinity of Lake Tahoe.

Application No. 50930
(Filed February 27, 1969;
Amended April 10, 1969)

Kenneth C. McGilvray and J. Douglas McGilvray,
Attorneys at Law, for applicant.
J. E. Johnson and John J. Gibbons, for the
Commission staff.

O P I N I O N

Applicant, Tahoe Sierra Water Company, a corporation, seeks authority to increase rates within its service area in the City of South Lake Tahoe and vicinity.

Public hearing was held before Examiner Gillanders in the City of South Lake Tahoe on April 10 and 11, 1969. The matter was submitted on May 26, 1969, upon receipt of applicant's late-filed Exhibit 2. Notice of the hearing was mailed, posted, and published in accordance with this Commission's rules of procedure.

Testimony on behalf of applicant was presented by its president and by a CPA employed by applicant. Testimony on behalf of the Commission staff was presented by an engineer. Nineteen members of the public attended the hearing, and two members of the public presented testimony.

Applicant's president testified that he has been associated with the company for the past 23 years and that for the last 16 years he has had sole control of the company. Applicant serves approximately 2,400 customers all within the City of South Lake Tahoe except for a small area near the airport. Applicant has three permanent employees and hires two to six temporary employees for construction during the summer months. Applicant has budgeted \$70,000 for construction in 1969. During cross-examination by the staff, applicant's president requested that the application be amended to change its proposed seasonal general metered service minimum charge for a 3/4-inch meter for the summer season from \$48.00 to \$35.00 and for a 1-inch meter from \$72.00 to \$60.00. He requested that the seasonal flat rate proposed charge for each outdoor faucet connected to pipe not larger than 3/4-inch be stricken. He further requested that the 1968 automobile shown as being the property of the water company be stricken from the application as the automobile is his personal property. These amendments were authorized by the examiner.

Applicant's president was unable to testify to any of the figures contained in the application and was unable to testify to any of the figures contained in applicant's filed annual reports to this Commission. He did testify that applicant does not refund its main extension contracts in accordance with Rule 15.

Applicant's CPA testified he took over the accounting for the company in 1966. The books were not in proper order when he took over. He requested that Exhibit 3 be relied upon

to show applicant's results of operation instead of Exhibit 2(E) attached to the application. Exhibit 3 shows, at present rates, a rate of return of 5.37% for 1967 recorded, 6.44% for 1968 recorded and 5.63% for 1969 estimated. At proposed rates, the corresponding percentages are 7.68, 8.30 and 7.35. He testified that present cash flow was not enough to finance a \$70,000 construction budget but that he did not believe that all construction should be financed from cash flow. He testified that applicant is not using Commission approved depreciation rates and that he does not know why applicant is not refunding main extension contracts in accordance with its filed tariffs. He claims the 1968 Annual Report, prepared by him and signed by applicant's president, contains a \$10,000 error in net revenues because of payroll inadvertently capitalized. He testified he would file an amended annual report.

A staff engineer presented the following results of operation based upon his limited investigation of applicant's operations and records:

Tahoe Sierra Water Company

RESULTS OF OPERATION

Company Recorded 1968 at Present Rates
(Preliminarily Adjusted by Staff for Expensed Payroll
and Depreciation Only)

| | <u>1968</u> |
|---|----------------------------|
| <u>Operating Revenues</u> | \$203,945 |
| <u>Operating Revenue Deductions</u> | |
| M. & O. Expenses (Exclusive of Payroll) | \$108,592 <u>64,261</u> |
| Subtotal | 44,331 |
| Staff Estimate Payroll Expense (Using 2,500 Customers) | <u>50,000</u> |
| Subtotal | 94,331 |
| Depreciation 2.8% (Of \$945,000) | 26,460 |
| Non-Income Taxes | <u>20,500</u> |
| Subtotal Deductions | 141,291 |
| S.C.F.T. | 1,429 |
| F.I.T. | <u>1,997</u> |
| Total Deductions | 144,717 |
| Net Revenues | 59,228 |
| Rate Base | 613,503 |
| Rate of Return | 9.6% |

The staff engineer testified that if net revenues were actually overstated by \$10,000, then his results of operation study would show a rate of return of 8.4%.

Based upon its study, the staff recommended that no increase in rates be granted.

A search of our official files revealed that no amended 1968 annual report has been filed by applicant. A business agent for the Construction and Laborers' Union, testified that the water rates were already too high. He testified that large capital investments by applicant had only been made in the last few years in preparation for sale to the city. The other public witness testified that he had suffered from lack of adequate pressure for 5 years beginning in 1962; that in 1968 pressure improved; but that he still does not have adequate pressure in summer time. He testified that he had contacted applicant, the Health Department and this Commission but nothing has been done to provide him with adequate pressure. Late-filed Exhibit 2 is the result of applicant's investigation of this problem.

Findings and Conclusions

The Commission finds that:

1. The Commission staff should complete its studies and review of applicant's present rates as quickly as reasonably possible, and if the results of such study and review indicate that the present rate of return is excessive, the Commission staff should immediately commence negotiations with applicant to insure rates do not result in an excessive rate of return.
2. Applicant may presently be earning an excessive rate of return.
3. Exhibit 2 reveals that service to one customer is inadequate and requires installation of certain equipment to improve pressures.

A. 50930 ds

4. Applicant is not following the provisions of its filed main extension rule regarding refunds.

5. Applicant is not using Commission approved depreciation rates.

The Commission concludes that:

1. The Commission's staff should immediately commence negotiations with applicant to insure rates do not result in an excessive rate of return.

2. Applicant must refund main extension contracts in accordance with its filed tariffs.

3. Applicant must use Commission approved depreciation rates.

4. Applicant should report in writing the status of the service improvements discussed in Exhibit 2.

5. Application No. 50930 should be denied.

O R D E R

IT IS HEREBY ORDERED that Application No. 50930 is denied.

Dated at SAN FRANCISCO, California, this 3rd day of SEPTEMBER, 1969.

William Spitzer, Jr.
President

J. William

Thomas

Commissioners

Commissioner A. W. GATOV

Present but not participating.

-6- Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.