

Decision No. 77192

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of ERSKINE CREEK WATER)
COMPANY for authority to increase)
rates for water service in the)
vicinity of Lake Isabella, Kern)
County.)

Application No. 51388
(Filed September 15, 1969;
Amended March 4, 1970)

Irwin M. Fulop, for applicant.
Mrs. Donald Brown, in propria persona, pro-
testant.
Chester Newman, for the Commission staff.

O P I N I O N

Applicant Erskine Creek Water Company, a corporation, seeks authority to borrow money and to increase rates within its service area in the vicinity of Lake Isabella, Kern County.

Public hearing was held before Examiner Gillanders at Lake Isabella on March 3 and 4, 1970. The matter was submitted on March 23, 1970, upon receipt of staff's late-filed Exhibit 11. 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 secretary, a CPA and an engineer employed by applicant. Testimony on behalf of the Commission staff was presented by an accountant and an engineer. 107 members of the public attended the hearing, and eight members of the public presented testimony.

Applicant's CPA testified that the corporation has never, in the accounting sense, earned a profit. No compensation has been paid by the corporation to its officers and directors. He testified that he believed that donated property should be included in the rate base.

Applicant's consulting engineer testified that the system was not properly designed. He presented an exhibit which purports to be a master plan for the system. However, there are no plans to implement the master plan as no funds are available.

Applicant's secretary testified that, if authorized, applicant would borrow \$30,000 to improve the system pressure, but that he did not know where applicant could borrow the money.

The staff engineer presented the following results of operation based upon his investigation of applicant's operations.

Summary of Earnings at Staff Recommended Rates
Estimated Year 1970

Operating Revenues	\$35,800
<u>Deductions</u>	
Operating Expenses	20,700
Depreciation Expense	4,100
Taxes Other than Income	5,000
Income Tax	1,000
Total Deductions	30,800
Net Revenue	5,000
Average Depreciated Rate Base	72,000
Rate of Return	6.9%

In determining the above results of operation the staff engineer designed rates to derive revenue which, after deducting reasonable operating expenses, applied to his estimated rate base which includes plant necessary to immediately improve system pressure, results in a rate of return which the staff accountant recommends be allowed until such time as applicant completes the entire improvement plan recommended by the staff engineer.

Protestant Mrs. Brown testified that the distribution of water "has been terrible." In the summer months she is sometimes out of water for a full day. She requests that no rate increase be granted until the company has shown "good faith".

The other public witnesses testified as to low pressures in the summertime and the quality of the water.

More than 500 of applicant's customers have written to this Commission in response to a request asking for their comments relating to applicant's service conditions or operating procedures. Fifty-three percent of the replies indicated dissatisfaction with present service conditions. All of the customers responding objected to the magnitude of the proposed increase.

A Commission staff engineer made field investigations of service conditions during December 1969. Seven-day continuous pressure recordings were obtained at points within the service area, customers were interviewed, and tests made of variations in service pressures under several operating conditions. It was found that service pressures in Tracts Nos. 2004, 2601, and 2871 were affected by the operation of the booster pump which is used by the Kern Valley High School to deliver water to the high school storage tank.

Applicant's operating records show that distribution system pressure is as low as 27 pounds per square inch at times of summer peak demands when the high school booster pump is not operating. When the booster pump is in operation there is a drop in service pressure of approximately 20 pounds per square inch in Tract No. 2601 with a lesser drop in service pressure in other areas where service problems were reported. According to the staff engineer, a forebay tank of approximately 30,000-gallon capacity installed adjacent to the high school booster pump would eliminate the severe service problem caused by the present in-line booster pump operation.

A water supply permit was issued to applicant by the Department of Public Health of the State of California on April 29, 1966. Reviews of bacteriological and chemical analyses up to and including

October 31, 1969 show that applicant is providing water which meets the requirements of the Department of Public Health.

As of December 1, 1969, applicant had issued 267 shares of stock which are held as follows:

C. E. and J. P. Silicz	61.125 shares
J. G. Silicz	61.125 shares
Harry H. Kem & Co., Ltd.	122.250 shares
Irwin M. Fulop	22.500 shares

Harry Kem is applicant's president and is also the principal corporate officer of Harry H. Kem & Co., Ltd. Harry H. Kem & Co., Ltd. owns property within the service area and also owns land adjacent to applicant's service area.

Discussion

We have before us a classic example of a water system owned and operated by persons more concerned with land development than with providing adequate public utility water service.

By Decision No. 48873 dated July 28, 1953, in Application No. 33334, applicant was granted a certificate of public convenience and necessity, permission to issue stock, and authority to establish rates for water service. Decision No. 48873 shows that applicant acquired certain lands and a water system from Charles E. Silicz, John G. Silicz and Harry H. Kem & Co., Ltd., a Nevada corporation, the owners of the Erskine Creek Ranch. The decision also shows that a Mr. E. C. Uffert was in the process of subdividing portions of the Erskine Creek Ranch for residential and business purposes. Mr. Uffert had an agreement with the owners of the Erskine Creek Ranch which reads as follows:

"Prior to the time that Buyer desires to subdivide any parcel, he shall procure a firm bid as to the cost of installing adequate water pipe with necessary connections to bring water for domestic purposes in the manner designated by Erskine Creek Water Co. from its well or wells to said subdivision.

Buyer shall bear the cost of said pipe, but upon payment thereof, the amount of the purchase price for said parcel to be subdivided, ascertained in the manner aforesaid, shall be reduced by the cost thereof. An appropriate credit shall be endorsed upon said note by the holder thereof, showing the reduction of the purchase price of said parcel. Buyer shall thereupon deliver a bill of sale and quitclaim deed for such pipe to Erskine Creek Water Co., a corporation, its successors or assigns, without further consideration therefor."

It is apparent from the above agreement that the sellers of the land (who also owned the water system) would realize more net monies on the sale of land if the water system was not of adequate design and capacity. This record shows that the water system is inadequate.

Applicant's present flat rate Schedule No. 2 was authorized by Decision No. 48873 and became effective October 5, 1953. Its meter rates were authorized by the same decision. By Advice Letter No. 5 the meter rates were revised to provide meter minimums for larger size meters. This revised meter rate schedule became effective October 25, 1968.

Applicant was providing service to 510 customers as of October 22, 1969. Four of these customers were being served on a metered basis and the balance of the customers were being charged various flat rates. Most of the flat rate charges are in accordance with the filed tariffs; however, 23 customers are billed at rates not on file in applicant's tariff book. These principal deviations from the filed tariffs are as follows:

- a. Fourteen business establishments having plumbing fixtures in excess of those authorized by rate Schedule No. 2 are charged \$5 per month.
- b. Three trailer parks are billed on the basis of \$3 for each office building instead of the \$4 authorized by the tariff on file. Trailer spaces are billed on an assumed occupancy of 50 percent of the total number of spaces within the trailer park at the authorized rate of \$0.50 per space.

- c. Five motels are billed at rates varying from \$5 to \$12.50 per month. There is no flat rate authorized for this class of service.
- d. Kern Valley High School is charged a rate based on an agreement between applicant and the school district dated June 30, 1956. This agreement has never been filed with or approved by the Commission, and requires the school district to pay a charge for water service which is twice the annual charge for electrical power that it uses to operate its booster pump, less \$24.

Exhibit 10, in this proceeding, shows that the staff engineer estimated that if applicant charged Kern Valley High School at tariff rates the school would produce \$4,700 in annual revenue instead of the \$1,000 under the agreement (supra). By charging filed rates, applicant could have reduced its loss by approximately \$3,700 annually. The record does not reveal how much more revenue would have been derived from the 23 customers not billed at tariff rates. Applicant's lament that it has never earned a profit is exaggerated.

Applicant's utility operating acumen is no better illustrated than by its proposed "Wholesale Rate" of 10 cents per 100 cubic feet. The staff engineer testified that applicant's direct costs for pumping and distribution are approximately 15 cents per 100 cubic feet.

Applicant's engineer and the staff engineer agree that certain piping and a tank are required in order to remedy system low pressures. Applicant has requested permission to borrow \$30,000 to pay for these improvements. Applicant's request for authorization to borrow \$30,000 will be considered after its financing plan becomes more definite.

Findings and Conclusion

The Commission finds that:

1. Applicant's present water distribution facilities are inadequate to furnish the minimum pressure requirements of the area.

2. When applicant installs a 30,000-gallon tank and connects it to the system, the system will supply residential service on a flat rate basis and commercial service on a metered basis with reasonable pressures.

3. When the tank is installed and operating, applicant is entitled to a rate of return of 7 percent on its rate base.

4. The staff estimates, previously summarized and discussed herein, of operating revenues, operating expenses and rate base for the test year 1970 reasonably represent the results of applicant's future operations.

5. The increases in rates and charges shown in Appendix A will be justified upon installation of a 30,000-gallon tank and connecting piping.

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 receipt by this Commission of a satisfactory certification by applicant that it has placed in service within one year after the effective date of this order a production flow meter on each well, the temporary 30,000-gallon "high school forebay" storage tank and piping of not less than 12-inch diameter connecting applicant's two wells to the main on Webb Avenue, applicant may be authorized by

supplemental order 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 four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. Applicant shall obtain and record deeds for land used by it for wells and booster sites. Additional land areas shall be recorded on the books at their value at date of dedication to public use. Journal entries establishing these values shall be submitted to the Commission for approval before recording.

3. A work order system shall be set up and used in accordance with this Commission's applicable Uniform System of Accounts for Water Utilities.

4. Within sixty days after the effective date of the decision in this matter, applicant shall provide service on a metered basis to all customers not identified in the present flat rate schedule.

5. Within one hundred and eighty days after the effective date of the decision in this matter, applicant shall submit a plan to provide adequate reservoir storage at a suitable elevation so that service failures will be reduced to a minimum; to eliminate the high school booster and forebay; and to connect to applicant's system the eight customers now served through the high school system. The plan submitted is to include an itemized time and cost schedule for the completion of necessary improvements, together with estimated dates of operation.

6. Beginning with the year 1970, applicant shall determine its depreciation accruals by the straight-line remaining life method using the rates set forth in Table III-A of Exhibit 10.

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

Dated at San Francisco, California, this 12th day of MAY, 1970.

William J. ...
President
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...
...
Commissioners

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Erskine Creek, in portions of Sections Nos. 1 and 6, T.27 S., Rs. 32 and 33 E., M.D.B. & M., Kern County.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>	
First 800 cu.ft. or less	\$ 3.50	(I)
Next 1,200 cu.ft., per 100 cu.ft.35	
Next 3,000 cu.ft., per 100 cu.ft.30	(I)
Over 5,000 cu.ft., per 100 cu.ft.20	
 Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 3.50	(I)
For 3/4-inch meter	4.50	
For 1-inch meter	6.00	(I)
For 1 1/2-inch meter	9.00	
For 2-inch meter	16.00	
For 3-inch meter	36.00	
For 4-inch meter	64.00	

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

Schedule No. 2

FLAT RATE SERVICE (T)

APPLICABILITY

Applicable to all water service furnished on a flat rate basis. (T)

TERRITORY

The unincorporated area known as Erskine Creek, in portions of Sections Nos. 1 and 6, T.27 S., Rs. 32 and 33 E., M.D.B. & M., Kern County.

RATES

	<u>Per Service Connection Per Month</u>	
For each single-family residence, including premises not exceeding 8,500 square feet in area:		
3/4-inch service connection	\$4.10	(I)
For first unit of each duplex or multiple- family residence not exceeding 3 units, including premises not exceeding 8,500 square feet in area:		(T)
First residential unit	4.10	(T)
For each additional unit served from the same connection	2.00	(I)(T)
For each store, shop, or establishment having no other plumbing fixtures than 2 lavatories and 2 toilets	5.00	(I)(T)
For each store, shop, or establishment having plumbing fixtures in excess of 2 lavatories and 2 toilets	7.00	(I)(T)
For each trailer park:		
Office and utility building	5.00	(I)
Additional for each trailer space	1.00	(I)(T)
For each motel:		(N)
Manager's residence or apartment	5.00	(N)
Additional for each motel unit	1.00	(N)

(Continued)

Schedule No. 2

FLAT RATE SERVICE
(Continued)

(T)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter. (N)
2. All service not covered by the above classification will be furnished only on a metered basis. (L)
(L)
3. If either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service. (N)
(N)