

ORIGINAL

Decision No. 77215

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of CRESTMORE VILLAGE WATER COMPANY,
a California corporation Under
Section 454 of the Public Utilities
Code to Increase Its Rates For Its
Palmdale Water System in Los Angeles
County, California and For Its
Bloomington Water System in San
Bernardino County, California.

Application No. 51234
(Filed July 3, 1969)

Haight, Lyon and Smith by George C. Lyon,
for applicant.
Fred J. Eversfield; Ivy P. Goodlow;
Jack H. Griffith; Mrs. Darrell Haas;
Orville D. Henson; Mary J. Henson;
Thelma Mauldin; Albert Pace; Mary Peery;
W. A. Peery; Connie Smith; and
Mrs. John C. Stanton, protestants.
Chester O. Newman and Albur F. Braggins,
for the Commission staff.

O P I N I O N

The applicant is a public utility water corporation furnishing domestic water to customers in San Bernardino County in a service area near Bloomington, and to customers in Los Angeles County in two small nonconnected systems (hereinafter Palmdale Tariff Area or Palmdale) in the vicinity of Palmdale. It seeks authority to increase its rates and customer deposits in all systems.

A public hearing on the complete application was held in Los Angeles before Examiner Rogers on January 12, 1970 and the matter was submitted. After submission the Commission was advised

that adequate notice of hearing had not been given to the Palmdale tariff area customers. The Commission set the submission of the Palmdale tariff area aside (Decision No. 76479 dated February 3, 1970).

After written notice to all Palmdale tariff area customers the further hearing relative thereto was held in Palmdale before Examiner Rogers on February 17, 1970. At this hearing the above listed protestants appeared and additional evidence was presented. The applicant was requested to file two additional exhibits. (Exhibits Nos. 7 and 8). These exhibits have been filed and the Palmdale portion of the application is ready for decision.

All services in Palmdale are metered. There are some fire hydrants but no revenue is received therefrom.

Palmdale is divided into two separate service areas. The larger one (East Palmdale) has approximately 96 service connections, and the water is secured from one well, the capacity of which has not been tested. This well discharges into a 42,000 gallon steel storage tank. There is a second well available but this well is not now equipped with a pump. The smaller area (Palmdale Poultry Ranchos) serves 9 customers. Water for the Poultry Ranchos is purchased from the Palmdale Irrigation District, (the Poultry Ranchos are outside the boundaries of the district).

Customer Deposits

The applicant requires that each customer deposit \$5.00 at the commencement of service to protect against uncollectible bills. It requests that this deposit be increased to \$10.00. The reasons advanced were that the proposed rates will result in average bills in excess of the existing amount of the deposits and that there is a large turnover of customers resulting in frequent recourse to the deposits for payment of bills. The staff recommended that the request be granted. We find that the deposit increase should be authorized.

Rates

The present and proposed rates are as follows:

<u>Quantity Rates:</u>	<u>Per Meter</u>		<u>Per Month</u>
	<u>Present Rates</u>		<u>Proposed Rates</u>
First 800 cubic feet or less	\$ 4.00		\$ 6.00
Next 3,000 cubic feet per Ccf40		.65
Next 1,000 cubic feet per Ccf40		.60
Next 1,200 cubic feet per Ccf30		.60
All over 6,000 cubic feet per Ccf30		.50
<u>Minimum Charges:</u>			
For 5/8 x 3/4-inch meter	\$ 4.00		\$ 6.00
1-inch meter	5.00		12.00
1½-inch meter	10.00		30.00
2-inch meter	15.00		48.00

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

Rate schedules for metered service and public fire hydrant service are on file with the Commission. No revenue is collected for fire hydrant service. As proposed by applicant the charge for the average monthly use of 1,550 cubic feet would increase from \$7 to \$10.88, or an increase of 55.4 percent. The monthly minimum charge for a 5/8 x 3/4-inch meter is proposed to be increased 50 percent from \$4 to \$6 and the blocking changed from two to three blocks. No change is proposed in the monthly minimum water quantity. A comparison of charges for water service through a 5/8 x 3/4-inch meter at applicant's present and proposed meter rates in Palmdale and those of neighboring water utilities is presented in the following tabulation:

Comparison of Monthly Charges
5/8 x 3/4-inch Meter

Consumption Cu. Ft.	Applicant (Palmdale)		Antelope Valley: Water Company : Palmdale Lancaster : Irrigation Tariff Area : District	
	Present Rates	Proposed Rates		
500	\$ 4.00	\$ 6.00	\$ 4.44	\$ 2.50
800	4.00	6.00	5.70	2.50
1,000	4.80	7.30	6.54	2.50
1,550 ^{1/}	7.00	10.88	8.81	3.38
2,000	8.80	13.80	10.34	4.10
2,500	10.80	17.05	12.04	4.90
3,000	12.80	20.30	13.74	5.70

^{1/} Average monthly consumption by applicant's customers in the Palmdale system.

The results of operations in Palmdale for the year 1968 recorded and the year 1969 at present and proposed rates as estimated by the applicant and the staff are as follows:

Item	1968 Recorded	1969 Estimated			
		Present Rates		Proposed Rates	
		Applicant	Staff	Applicant	Staff
Operating Revenues	\$ 9,218	\$ 9,246	\$ 9,250	\$14,421	\$14,420
Operating Revenue					
Deductions					
Source of Supply	260	260	250	260	250
Purchased Water	1,266	1,582 ^{1/}	900 ^{1/}	1,582 ^{1/}	900 ^{1/}
Purchased Power	2,573	1,670	1,050	1,670	1,050
Employee Labor	772	780	780	780	780
Materials	155	120	120	120	120
Contract Work	2,364	400	600	400	600
Office	274	280	280	280	280
Insurance	67	70	70	70	70
Accounting, Legal	250	833	800	833	800
Health Licenses	206	206	260	206	260
Uncollectibles	178	180	100	288	100
Vehicle Expense	2,206	2,210	1,930	2,210	1,930
Total Oper. Expenses	10,571	8,591	7,140	8,699	7,140
Depreciation Exp.	2,805	2,932	2,190	2,932	2,190
Taxes, Ad Valorem	1,393	1,279	850	1,279	850
Taxes, Payroll	46	45	50	45	50
Taxes, Income	35	33	(500)	724	980
Total Deduct.	14,850	12,880	9,730	13,679	11,210
Net Operating Inc.	(5,632)	(3,634)	(480)	742	3,210
Rate Bases	-	38,611	21,230	38,611	21,230
Rates of Return	-	-	-	1.7%	15.1%

(Negative)

^{1/} Includes 25 percent increase in Palmdale Irrigation District's rates for 1969.

Revenues

The applicant and the staff agreed on the estimated 1969 revenues at present and proposed rates except that the staff rounded off the figures. We find that the revenues for 1969 will be \$9,250 at the present rates and \$14,420 at the proposed rates.

Operating Expenses

The major difference in the applicant's and the staff's estimates of operating expenses for 1969 are in purchased water (Palmdale Poultry Ranchos), purchased power, contract work, accounting and legal expense, uncollectibles and vehicle expense.

Purchased Water (Palmdale Poultry Ranchos)

The Poultry Ranchos area is receiving water furnished by the Palmdale Irrigation District. The staff engineer stated that there was a loss of 25 percent of the purchased water and reduced the cost of such water from the applicant's estimate of \$1,582 to \$900. The staff estimate includes 10 percent to allow for lost water. The applicant's recorded cost of such water in 1968 was \$1,266. The Irrigation District increased the charge for water to applicant by 25 percent in 1969 and applicant estimated the cost for 1969 by taking the 1968 recorded figure and adding the increased cost. The Poultry Ranchos system appears to be served by the applicant as an accommodation pending service by a newly formed but presently non-operative water district. It does not appear reasonable to penalize the applicant for furnishing water to the area. We find that \$1,582 is a reasonable sum to allow for water furnished to the Poultry Ranchos.

Purchased Power

The cost of purchased power refers to power to pump water to the East Palmdale system, exclusive of the Poultry Ranchos. The actual cost for 1968 was \$2,573. In that year the applicant's well pump was powered with a 75-horsepower motor and the cost included a no longer used booster pump at the Palmdale Poultry Ranchos. The East Palmdale pump has been replaced with a 20-horsepower pump and the applicant's estimate of \$1,670 for 1969 reflects adjustment for the items referred to above. The staff estimates that the purchased power cost should be only \$1,050 which includes an allowance of 10 percent for unaccounted for water. The record shows that the system is in poor shape and there is a loss of approximately 50 percent of the pumped water due to the fact that the booster pump is not properly regulated and runs continuously.

We find that \$1,360 is a reasonable sum to allow for purchased power.

Contract Work

In 1968 the applicant was forced to pay \$2,060 for repairs to the 75-horsepower motor which burned out twice. This has been replaced with a 20-horsepower motor. In addition, a new switch panel was installed. The applicant estimated that \$400 is a reasonable sum to allow for this work in 1969. The staff allowed \$600 for this item. We find that the applicant's estimate is reasonable and it will be used for the purposes of this decision.

Accounting and Legal Expense

The applicant spread the cost of this proceeding over a period of four years. The staff spread it over a period of five years which is the Commission's usual practice. We find that the staff's estimate is reasonable and it will be used for the purposes of this proceeding.

Uncollectibles

The applicant allowed \$288 which is obviously unreasonable, particularly in consideration of the fact that we are allowing a \$10.00 deposit to be collected before the start of service.

We find that the staff's estimate of \$100 is reasonable and it will be included.

Vehicle Expense

The applicant's estimate included mileage for servicing the pump which has been replaced. We find that the staff's estimate is reasonable and it will be used herein.

Total Operating Expenses

We find that the total operating expenses for 1969 will be as follows:

<u>Item</u>	<u>Amount</u>
Source of Supply	\$ 250.00
Purchased Water	1,582.00
Purchased Power	1,360.00
Employee Labor	780.00
Materials	120.00
Contract	400.00
Office	280.00
Insurance	70.00
Accounting, Legal	800.00
Health Licenses	250.00
Uncollectibles	100.00
Vehicle Expense	<u>1,930.00</u>
Total Operating Expenses	\$ 7,932.00

We further find that such sums are reasonable amounts to allow for said expenses.

Rate Base

Applicant's estimated average rate base for 1969 was \$38,611. The average rate base estimated by the staff was \$21,230. Both started with the end of the year 1968 utility plant of \$94,684. The staff financial witness transferred to non-utility water properties \$3,200 for a capped well and \$2,120 for an unused pressure tank and air compressor. The evidence shows that such treatment is correct and we so find. The staff financial witness also transferred on the records to Palmdale from Bloomington \$190 of tools which were physically transferred to Palmdale. The Financial Examiner's adjustment resulted in a gross utility plant as of January 1, 1969 of \$89,554. We find that the Financial Examiner's adjustment of gross utility plant as of January 1, 1969 was correct.

In estimating the utility plant the staff engineer deducted unused pumping equipment, reservoirs and tanks with an additional gross original cost of \$11,965, and added back \$3,345 for a well pump moved from the Poultry Ranchos to East Palmdale. We find that this treatment is correct. The staff also deducted \$1,386 for services and \$274 for meters which were, at the time of the hearing, unused. We find that the applicant's recorded figures of \$5,310 and \$3,482, respectively, should be used for these items. We find that the end of the year 1968 gross utility plant was \$80,934 and that the staff's estimate of \$133 for 1969 plant additions is reasonable and should be used. The end of the year 1969 utility plant we find to be \$81,067. The 1969 average utility plant we find to be \$81,000.

We find that the depreciation reserve as of December 31, 1968 was \$32,545 and that the depreciation accrual for 1969 was \$2,400, leaving a net utility plant at the end of the year 1969 of \$46,122. The average reserve accrual for 1969 was \$1,198 giving an average reserve for 1969 of \$33,743 leaving an average net utility plant of \$47,257 for the year 1969.

We find that the staff's allowance of \$600 for working cash is reasonable.

The applicant requested an allowance of \$2,145 for materials and supplies. The staff allowed \$100. The system is in need of repairs. We find that \$1,000 is a reasonable sum to allow for materials and supplies.

The staff's estimates of average contributions and average advances for construction are the same as the applicant except they are rounded off.

We find that applicant's rate base for 1969 will be \$20,110.

Depreciation Expense

The applicant's estimate of depreciation expense included depreciation on wells, reservoirs, and tanks. We have adjusted these items to exclude a large portion thereof from utility plant. We find that the staff's adjustments as heretofore modified are reasonable. We find that the depreciation expense for 1969 will be \$2,220.

Taxes

Non-income

There was a minor difference in the estimates of payroll taxes. We find that the applicant's estimate of \$45 is correct and such figure will be used herein.

The staff used the ad valorem tax rates used by the applicant but adjusted for property excluded from utility plant. It is impossible from the record herein to determine the ad valorem taxes but it is obvious that it is greater than the staff estimate of \$660 and less than the applicant's estimate of \$1,279. We will adopt the sum of \$970. We find such sum is reasonable to allow for ad valorem taxes for 1969.

Income

Based on the foregoing figures we find that State and Federal income taxes will be zero at present rates and will total \$670 at the proposed rates.

Summaries of Earnings

Based on the foregoing we find that for 1969 at the present and proposed rates, the results of operations will be as stated below:

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 9,250	\$ 14,420
Operating Expenses	7,930	7,930
Depreciation Expense	2,220	2,220
Non-income Taxes	1,020	1,020
Income Taxes <u>1/</u>	-	670
Total	\$ 11,170	\$ 11,840
Net Operating Income	-	2,580
Rate Base	20,110	20,110
Rate of Return	-	12.8%

1/ Includes 5% Federal Surcharge

Rate of Return and Financial Requirements

We have found that the applicant will lose money at present rates but for 1969 at proposed rates would have a rate of return of 12.8 percent.

Applicant's principal reason for the requested increase is that it is losing money at the present rates. The applicant alleges that the rates proposed will not provide the company any reasonable rate of return on its depreciated rate base, but they will reduce the losses now being experienced. Applicant states that the customers can only bear so much in the way of rates and it is hoped that at sometime in the future additional customers will connect to the lines installed to further reduce the losses.

The results of operation for the estimated year 1969 indicate that the applicant's proposed rates would yield a rate of return of 12.8 percent. The staff recommends a rate of return of 8½ percent.

A rate of return of 8½ percent applied to the estimated rate base of \$20,110 would result in net operating revenues of approximately \$1,710.

The present rates were authorized in 1960. There has been no increase since said time.

Six informal complaints have been filed with the Commission since 1967 concerning high and/or erratic bills, pressure fluctuations, air in the lines, low pressure and service outages. All of these complaints have been closed. There were no pressure problems in either system. Again the one common complaint expressed by customers interviewed was service outages. The recent service outages have been due to well pumping equipment failures and the reliance upon a single well as the source of supply in East Palmdale and system shutdowns for repairs in the Poultry Ranchos.

Ten individuals or couples appeared at the Palmdale hearing. These people complained of water running to waste (one protestant stated water ran down the street for two weeks before the leak was repaired) and inability to contact a serviceman. The applicant's witness stated that on May 29, 1969, when the pump was replaced there was no water between 8 AM and 10:30 PM; on November 8, 1969, an automobile broke a hydrant and the water was shut off between 9 AM and 11 AM; and on November 13, 1969, there was a bad leak in the Poultry Ranchos System and the water was off between 5:30 PM and 6:15 PM.

It appears that the principal cause of delay in repair service is due to the fact that the serviceman lives in Apple Valley approximately 60 miles from Palmdale and the delay is caused by travel time after he is contacted.

A petition was filed by 41 water users requesting that the application be denied. These parties did not consider the economics of the operation and, obviously, such a petition is entitled to very little weight.

Applicant is entitled to a reasonable rate of return. A 9 percent rate of return will give the applicant approximately \$1,810 of net revenues and approximately \$2,220 of depreciation accrual with which to make needed repairs, help with maintenance and to pay a local serviceman enough money to keep him available.

Findings and Conclusions

The Commission finds that:

1. The applicant is in need of additional revenues but the rates it requests are excessive.

2. The adopted estimates previously discussed herein, of operating revenues, operating expenses and rate base for the year 1969 reasonably indicate the probable results of operation.

3. The applicant should repair the system to the best of its financial ability, acquire a stand by well and hire a local serviceman.

4. If the applicant makes improvements and hires a local serviceman, a rate of return of 9 percent is reasonable.

5. An increase of customer deposits to \$10 is reasonable and should be authorized.

6. 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 herein prescribed, are for the future unjust and unreasonable.

7. Applicant's operations under the rates authorized herein should make funds available from depreciation accruals and net revenues for the purposes stated in Finding No. 3 herein in the amount of \$4,030 based on the adjusted results herein referred to. This sum should be used for system improvements.

The Commission concludes that applicant's request for a rate increase should be granted in part and that applicant should be required to take the actions set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant, Crestmore Village Water Company is authorized to file the revised rate schedule attached to this order as Appendix A for service to

its Palmdale tariff area. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date hereof. This authority is subject to revocation and reversion to rates effective at the time the application was filed unless, within ninety days after the effective date hereof applicant shall file a schedule of improvements to be made within not to exceed five years from the effective date hereof outlining the schedule of work to be done, and shall have secured and made available to consumers a local serviceman in Palmdale available at all regular business hours and in the event of emergency. Failure to hire and make available to the consumers such local serviceman may result in an order reducing the rates to those in effect when the application herein was filed. Said reduction may be ordered without further hearing.

2. Applicant is authorized to increase its customer deposit for Palmdale to \$10.00 as part of its tariff Rule No. 7.

3. Applicant shall also:

- a. Beginning with the year 1970, base the accruals to the depreciation reserve upon spreading the original cost of the plant, less estimated future net salvage and depreciation reserve, over the remaining life of the entire plant, and shall use the composite depreciation rate of 2.4 percent. Applicant shall review the depreciation rates when major changes in plant composition occur, but at intervals of not more than five years. Results of these reviews shall be submitted to the Commission.

- b. File an up-to-date tariff schedule, rules, tariff service area map clearly showing service area boundaries, and copies of printed forms used in dealing with customers. Such filing shall comply with General Order No. 96-A.
- c. Institute a routine inspection and maintenance schedule for its pumping equipment so as to minimize service outages due to equipment failures.

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

Dated at San Francisco, California, this 14th day of MAY, 1970.

William L. Lyons, Jr.
President

[Signature]

[Signature]

[Signature]

Vernon L. Sturgeon
Commissioner

APPENDIX A

Schedule No. PD-1

Palmdale Tariff Area

METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Palmdale Poultry Ranchos (Tract No. 15497) and East Palmdale Ranchos (Tract No. 8597) and vicinity, near Palmdale, Los Angeles County.

(T)
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RATES

		<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:			
First	800 cu.ft. or less	\$ 5.75	(I)
Next	4,000 cu.ft., per 100 cu.ft.	0.56	
Over	4,800 cu.ft., per 100 cu.ft.	0.44	
Minimum Charge:			
For	5/8 x 3/4-inch meter	5.75	(I)
For	3/4-inch meter	8.00	
For	1-inch meter	12.00	
For	1 1/2-inch meter	25.00	
For	2-inch meter	35.00	

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