

ORIGINAL

Decision No. 77456

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of COASTAIR ELECTRONICS,)
INC., dba FIELDS LANDING WATER WORKS,)
for a certificate of public conve-)
nience and necessity to construct an)
extension to service the King Salmon)
Subdivision, Humboldt County, and to)
establish rates.)

Application No. 51792
(Filed March 27, 1970;
Amended March 31, 1970)

Anthony A. Pialorsi, for applicant.
A. Olaf Skauge, for Capt'n Oles Boat Loading;
Robert R. Delong and L. E. Raice, for King
Salmon Water Co., interested parties.
Tedd F. Marvin and John J. Gibbons, for the
Commission staff.

ORDER SETTING ASIDE SUBMISSION AND
REOPENING FOR FURTHER HEARING

Introduction

Applicant seeks a certificate authorizing the construction of a water distribution system to serve an area contiguous to its existing system at King Salmon Resort Subdivision and vicinity at Buhne Point on Humboldt Bay.

Public hearing was held at Eureka on May 5, 1970, before Examiner Gillanders and the matter submitted.

Testimony was presented by applicant's owner, a staff engineer and a staff accountant.

Ownership and Affiliations

Coastair Electronics, Inc. is a corporation, the stock of which is wholly owned by Anthony A. Pialorsi. Mr. Pialorsi also owns 5,441 shares out of a total of 5,891 in Reynolds Water Company, Inc., an adjacent public utility which he manages.

Mr. Pialorsi also owns Arcata Pump and Equipment Company and Pialorsi Construction Company. Construction work for the two water utilities is performed by Mr. Pialorsi's construction interests.

Service Areas

The area known as King Salmon Subdivision is presently served by an incorporated mutual water company known as King Salmon Water Co. This company obtains its water through a master meter from Fields Landing Water Works.

Applicant currently furnishes water in the unincorporated community of Fields Landing and an adjacent area known as Sea View Manor. The King Salmon area is contiguous to and northwest of applicant's service area. As of December 31, 1969, Fields Landing served 247 active service connections.

Reynolds Water Company provides water service to an area contiguous to and southeasterly of the Fields Landing service area. It includes the Humboldt Hill, Country Club Estates and Parkwood subdivisions and serves 256 customers.

Discussion

Applicant's president presented Exhibit 1 and testimony related thereto. Exhibit 1 shows that applicant intends to acquire the existing facilities of King Salmon Water Co. at no more than the cost of processing this application and the cost of attaining right and title to the facilities. No testimony was adduced as to what these costs might be. Upon the construction of adequate facilities to properly serve the King Salmon area, applicant proposes to abandon the existing facilities progressively without affecting its plant or depreciation accounts. Applicant estimated that the cost of the new facilities over a five-year period would be \$60,000. During 1970, 1971 and

1972, the construction would be financed personally by Mr. Pjalorsi in the amount of \$16,755 and by bank loans in the amount of \$28,000 to be borrowed at 9 percent interest. During 1973 and 1974, \$15,470 would be financed in a manner to be arranged.

As shown in Exhibit 1, applicant estimated that in the fifth year of operation it would achieve a net return of \$2,400. Under cross-examination by the staff, Mr. Pjalorsi agreed that after paying interest only on his borrowed funds he would suffer a net loss of at least \$300 annually. The record reveals that water delivered to King Salmon Water Co. is furnished at applicant's filed tariff meter rate. However, under a special agreement with the mutual, the customers are individually billed by applicant at rates which, for the year 1969, resulted in billings of \$5,822 rather than \$6,283 which would have been billed the mutual at the meter rates. These special rates were set up for temporary use and include a special charge of 50 cents per bill per month for billing, collecting, and record-keeping by applicant. Mr. Pjalorsi, when questioned as to the reason why he was willing to provide water service at a substantial loss, replied that he wanted to accommodate his neighbors in the King Salmon area and that he was an altruistic citizen.

We have taken official notice of the annual reports of Fields Landing and Reynolds Water Co. and have also taken official notice of the filed tariff of each utility.

The 1969 annual report of Fields Landing Water Works shows that \$28,159 in plant additions were installed in 1969, and that the company operated at a net loss of \$378. Reynolds Water Company showed a net loss of \$746 in 1969.

The record shows that Fields Landing Water Works was ordered to "... attempt the elimination of excessive amounts of iron and

manganese in its water supply ...," by Decision No. 73806, dated March 5, 1968, in Case No. 8691. At the time the above-mentioned decision was issued, Mr. Pialorsi did not own the stock of applicant utility. However, upon acquisition of the stock, Mr. Pialorsi installed filter facilities at a cost of \$14,000 to improve the quality of the water obtained from the Fields Landing wells.

Decision No. 72724, dated July 11, 1967, in Application No. 49055, required Reynolds Water Company to make certain improvements and betterments in its system. A number of the installations have still not been completed. By a letter dated July 31, 1969, Reynolds Water Co. stated that it has been financially impossible for it to complete improvements of that system ordered by this Commission in Decision No. 72724. The following items set forth in Decision No. 72724 have not been completed. References are to the ordering paragraphs:

2. Revised tariff service area map. (This map has not been filed.)
3. System map required by paragraph I.10.a. of General Order No. 103. (This map has not been filed.)
- 5.b. Replace all plastic water mains in the Humboldt Hill and Parkwood Subdivision. (Some replacements have been made.)
- 5.c. Fence wells and related equipment.
- 6.a. Replace and relocate on a progressive basis, the steel water mains which are presently in easements in the Country Club Estates area with more suitable pipe and relocate customer service connections and install meters after such replacement and relocation of mains. This work was to be completed by August, 1969. (Applicant has informed the staff that all except six meters have been installed, but that only about 350 feet of mains have been replaced.)

Exhibit 2 shows that applicant's president has arranged for an additional source of supply for both utilities. Negotiation

resulted in a preliminary contract being executed on April 14, 1970, with the Humboldt Community Services District. The contract provides for the District to sell water to both utilities and is effective for a 30-year period. The contract can be renegotiated in 1977.

The contract provides for the purchase of a minimum of 3,000,000 and up to a maximum of 9,000,000 gallons per month. If the utilities purchase between 3,000,000 and 4-1/2 million gallons, the cost for all water will be at the rate of 19 cents per 100 cubic feet. If between 4-1/2 million and 6,000,000 gallons is used the rate becomes 18 cents per 100 cubic feet for all water delivered, and if more than 6,000,000 gallons is used the rate becomes 17 cents per 100 cubic feet for all water used. Humboldt Community Services District expects to be able to provide water service sometime in 1971.

The contract requires a minimum annual payment of \$9,144 on a take or pay basis. This amount was not considered in the fifth year results of operation presented by applicant and by the staff.

Mr. Pialorsi testified that his revenue estimates were based upon an average usage of 400 cubic feet of water per customer per month. The average usage in the systems of Fields Landing, Reynolds, the City of Eureka and the City of Arcata, according to Mr. Pialorsi, is 600 cubic feet per month per customer. The staff engineer originally used 1,300 cubic feet in estimating revenues. At the hearing he changed his estimate and based his estimated revenues on a usage of 600 cubic feet. Both applicant and staff based their estimates on a fully metered system and 100 percent occupancy, an overly optimistic assumption.

Applicant is requesting the following rates:

Flat Rate Residential Service

Metered Services, per meter per month \$ 6.00 per month

Quantity Rates:

First	400 cu.ft. or less	6.00
Next	1,600 cu.ft., per 100 cu.ft.55
Next	3,000 cu.ft., per 100 cu.ft.40
Next	5,000 cu.ft., per 100 cu.ft.30
Over	10,000 cu.ft., per 100 cu.ft.25

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 6.00
For	3/4-inch meter	7.25
For	1-inch meter	10.00
For	1-1/2-inch meter	16.00
For	2-inch meter	21.00
For	3-inch meter	33.50

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

Based on applicant's usage, it would appear that his proposal to install 105 5/8 by 3/4-inch meters at a cost of \$4,195 would do nothing more than protect against possible wasting of water.

Applicant's present rate for flat rate service is \$3.45 and \$2.90 per month minimum for metered service. It is obvious that if the King Salmon Subdivision is considered as a separate entity apart from Fields Landing for rate-making purposes, as was done by applicant and the staff, the resultant loss of \$6,000 in gross revenues for Fields Landing, without a comparable reduction in its expenses, would trigger a rate increase proceeding. Applicant stated that it intended to file for a rate increase in August, 1970.

Mr. Pialorsi, under cross-examination regarding the financing of the proposed system, stated that he had substantial personal resources. However, he declined to list his assets in detail and gave no information regarding his liabilities.

According to the staff engineer, the King Salmon Water Co. was incorporated as a mutual water company to provide water service to the King Salmon Subdivision. The mutual was formed in the year 1948 and received authority from the Division of Corporations to sell and issue an aggregate of not to exceed 500 memberships. The authorization was granted to an entity referred to as Eureka Shipbuilders, Inc. There appears to be little information that can be obtained regarding information of King Salmon Water Co. as most of the Division of Corporation's records on this entity have been destroyed. Information available indicates that there are approximately 80 individual or separate property owners who own or control all the lots and parcels in the King Salmon area.

While two persons claiming to be directors of the mutual made appearances, neither presented any evidence as to the status of the mutual or any evidence showing that the membership actually wanted to sell their system or that they were authorized to speak for the membership.

It is apparent that any realistic solution to the problems of King Salmon Water Co. that will not result in an added financial burden for customers of Fields Landing will unquestionably require higher water rates for customers in the King Salmon area.

The staff accountant suggested three possible solutions to the problems as follows:

1. Formation of a special assessment district to pay all or part of the cost of the distribution facilities in the King Salmon Subdivision; the facilities to be owned and operated by Fields Landing Water Works. The amount assessed against the lot owners would be accounted for by the utility as a contribution.

2. Establishment of a surcharge (e.g. \$5 a month) for a period of five or 10 years in addition to regular charges for water service at established tariff rates of the Fields Landing Water Works. Amounts collected under the surcharge would be placed in a trust fund to pay for all or a portion of the cost of rehabilitating the King Salmon water system. Amounts collected under the surcharge would be accounted for by the utility as contributed plant.

3. Distribution facilities for the King Salmon area to be financed by the Fields Landing Water Works from its own resources, with a separate rate schedule to be established for the King Salmon area.

It was the staff accountant's recommendation that if the application was granted that solution No. 2 be adopted. The solution would require a flat rate charge of \$8.45 per month and a minimum meter charge of \$7.90 per month. According to the staff accountant, the advantage of this proposal is that it probably would result in the lowest ultimate cost to the King Salmon residents and would not impose added financial burdens on the customers of Fields Landing. The disadvantages of this proposal are (a) the high rates that will necessarily result during the period that the surcharge is in effect; (b) the deviation from long-established Commission policy that customers should not be required to finance water plant directly from revenues; (c) the possibility that such a surcharge would be subject to income taxes when received by the utility; and (d) the fact that the improvements would be made piecemeal, although the surcharges would begin immediately.

According to one of the mutual's purported directors, \$8 to \$10 per month is too much for the people to pay.

The staff engineer appearance recommended that applicant's request be granted.

Findings and Conclusions

We believe, and so find, that we do not have before us reliable estimates of revenues, expenses, or rate base upon which we can predicate proper rate schedules for the King Salmon area.

We conclude therefore that we should issue an order setting aside submission and reopening for further hearing, at which time, applicant should produce evidence of financial ability to finance its proposed system and to produce realistic estimates of results of operation. We further conclude that King Salmon Water Co. should produce adequate proof that its members desire to sell their system, that they can legally sell it for a nominal sum (as required by applicant); and that its members are willing to pay the amounts required by the results of operation (supra).

IT IS HEREBY ORDERED that the submission heretofore entered in the above-entitled matter is set aside and the matter reopened for further hearing to receive evidence on the following subjects:

- a. The financial statements of Anthony A. Pialorsi, including, but not limited to, a balance sheet as of December 31, 1969 and an income statement for the year 1969.
- b. A showing by Mr. Pialorsi as to what assets and what income he is willing to devote to the proposed King Salmon system.
- c. A results of operation report for the King Salmon water system prepared by Coastair Electronics, Inc., assuming completion of the \$60,000 in proposed plant reconstruction. Such report shall be based on an average water usage of 400 cubic feet per month for King Salmon customers and upon reasonable expenses, including proper allocation of Fields Landing System expenses on a per customer basis or other appropriate basis. The King Salmon water system rate base similarly shall include proper allocations of supply plant and other plant from the Fields Landing Water System. The effect on rate base and on operating expenses if water is purchased from the Humboldt Community Services Districts under the proposed contract shall be separately estimated.

- d. A rate schedule based upon the results of operation described in (c) above. Such rate schedule shall be designed to produce a rate of return of 8 percent on rate base.
- e. The actions taken by King Salmon Water Co. in regard to:
 - (1) The proposed sale of its system to Coastair Electronics, Inc.
 - (2) Any agreement by King Salmon Water Co. members to pay the rates required by the study ordered in (d) above.

Upon notice by applicant and by King Salmon Water Co. that they are ready to present evidence on the above-listed items, hearing will be scheduled before Examiner Gillanders at Eureka at a time designated by notice of the Secretary.

The effective date of this order shall be the date hereof.

Dated at San Francisco, California, this 7th day of JULY, 1970.

J. P. ... Chairman
William ...
... Commissioners

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

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