

ORIGINAL

Decision No. 80680

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own )  
 motion into the operations, rates, )  
 facilities, charges and practices of )  
 COASTAIR ELECTRONICS, INC., dba )  
 FIELDS LANDING WATER WORKS. }

Case No. 9394  
 (Filed June 20, 1972)

Anthony A. Pialorsi, for Coastair Electronics,  
 respondent.  
Kenneth H. Edgar, Olive M. McCormick, Walter P.  
Schwartz, Richard A. Sherman, and Samuel C.  
Young, for themselves; Mae Pererra, for Bell  
 Hill Property; and James Turk, for King Salmon  
 Mutual Water Company; protestants.  
Walter H. Kessenick, Attorney at Law, and  
John D. Reader, for the Commission staff.

## O P I N I O N

On June 20, 1972, the Commission issued its order of investigation of Coastair Electronics, Inc., a California corporation, doing business as Fields Landing Water Works. In the order of investigation it was stated that its purpose was to determine whether the operations, rates, facilities, charges and practices, or any of them, of respondent are reasonable and adequate for the purpose of rendering water service to the public and whether they should be modified in any way by order of this Commission.

After notice, public hearings were held before Examiner Boneysteele at Eureka on August 1 and 2, 1972, and at San Francisco on August 29, 1972.

Description of System

Respondent Coastair Electronics provides water service in unincorporated areas south of Eureka, Humboldt County, known as Sea View Manor and Fields Landing. There are approximately 245 metered and 35 flat rate services. One of the metered customers,

King Salmon Mutual Water Company, in turn supplies water to approximately 80 of its own customers. There is little growth in number of customers at the present time.

Water is obtained from springs and from purchases from Reynolds Water Company and from the Humboldt Community Services District. Prior to February 1972, the water now purchased from the District was obtained from two wells within the service area. The well water had a high iron and manganese content and was a source of considerable customer dissatisfaction. A petition was circulated requesting that Humboldt Community Services District water be made available to the area. The State Department of Public Health, Bureau of Sanitary Engineering, also encouraged the utility to abandon its wells and purchase water from the District.

#### History of Proceeding

In February of 1972, Humboldt Community Services District completed a transmission main which ran past the Coastair Electronics' service area to College of the Redwoods. Prior to completion of the line, Coastair Electronics signed a contract with the District which enabled Coastair Electronics to substitute higher quality District water for the poor quality well supply, which had supplied approximately 80 percent of the utility's requirements. The staff estimates that the new connection requires an additional yearly expenditure of about \$16,000 for purchased water less savings of \$3,500 on purchased power expense that was formerly required for pumping the abandoned wells.

In February of 1972, Coastair's president approached the staff and requested a rate increase by the Commission's advice letter procedure. After negotiations between the staff and Coastair's president, the staff recommended rates that would produce approximately a 49 percent increase in revenues. Notice was given of the increase and a number of customers protested to the Commission. In May the Board of Supervisors of the County of Humboldt requested a

hearing on the proposed increase. The staff thereupon recommended to the Commission that it open the subject investigation, which investigation was ordered on June 20, 1972. As mentioned above, the order of investigation was not confined to rates but also embraced operations, facilities, and practices.

### Staff Report

On July 17, 1972, the staff issued a brief report entitled "Summary of Earnings". The field investigation upon which the report was based had been made in April of 1972 in connection with the advice letter increase. The rates recommended by the staff were those originally proposed in the aborted advice letter procedure. A staff engineer presented the report at the first day of hearing and it was received into evidence as Exhibit 1.

The following tabulation from the report compares present and staff proposed rates:

### Present and Staff Proposed Rates

Item	Per Meter or Service Per Month:		
	Present	Proposed	Increase

#### Meter Rates

##### Quantity Rates

First 400 cu.ft., or less .....	\$ 2.90	\$ 4.75	63.8%
Next 1,600 cu.ft., per 100 cu.ft. ....	.42	.63	50.0
Next 3,000 cu.ft., per 100 cu.ft. ....	.32	.46	43.8
Over 5,000 cu.ft., per 100 cu.ft. ....	.23	.32	39.1

##### Minimum Charges

For a 5/8 x 3/4-inch meter .....	2.90	4.75	63.8
For 3/4-inch meter .....	3.85	6.00	55.8
For 1-inch meter .....	5.90	9.00	52.5
For 1-1/2-inch meter .....	8.00	12.00	50.0
For 2-inch meter .....	15.75	24.00	52.4
For 3-inch meter .....	26.25	40.00	52.4
For 4-inch meter .....	38.50	60.00	55.8

#### Flat Rates

For a single-family residential unit .....	3.45	5.20	50.7
For each additional unit on the same premises .....	1.75	2.50	42.9
For each 100 sq.ft. of premises in excess of 6,000 sq.ft. ....	.04	.06	50.0

Monthly bills at various consumptions are illustrated as follows:

Billing Comparison

Consumption	Present	Proposed	Percent
Hundreds of Cubic Feet/Month	Rates	Rates	Increase
5/8 x 3/4-inch meter			
0	\$ 2.90	\$ 4.75	63.8%
10	5.42	8.53	57.4
15	7.52	11.68	55.3
20	9.62	14.83	54.2
30	12.82	19.43	51.6
100	30.72	44.63	45.3

The staff witness testified that seven large users, including King Salmon Mutual, account for 75 percent of the water consumption of the system. The allocation of the increase to the various blocks was done by judgment, allocating largest increases to smallest users.

Results of operations as developed by the staff and reflecting increased costs of purchased water in 1972 are shown below:

Item	Recorded	Estimated Year 1972:	
	Year 1971	Present Rates	Proposed Rates
Operating Revenues	\$ 29,764	\$ 31,000	\$ 46,200
<u>Operating Expenses</u>			
Operating & Maintenance Expenses	22,690	30,590	30,590
Depreciation	5,301	4,450	4,450
Property Taxes	712	840	840
Other Taxes	1,228	1,200	1,200
Income Taxes	100	200	960
Total Expenses	30,031	37,280	38,040
Net Operating Revenues	(267)	(6,280)	8,160
Average Rate Base	106,000	107,200	107,200
Rate of Return	Loss	Loss	7.6%

(Red Figure)

For the estimated revenues for 1972 the staff assumed that all 280 customers were metered. The \$960 for income taxes at staff proposed rates was a total of \$260 State Corporation Franchise Tax and \$700 Federal Income Tax. Expense for 1972 was reduced by the staff in an amount of \$3,000 because the amount appeared excessive.

The staff report stated that during the investigation the staff was apprised by the utility's manager of several system deficiencies and plans for correcting them. The staff agreed that these improvements would be beneficial and included \$6,000 in the recommended rate base for the improvements, which were:

- a. Installation of a larger connection to the supply main from which the utility now purchases most of its water.
- b. Installation of the second half of a plastic liner in the reservoir.
- c. Installation of a remote control relay to regulate intake of water from source of supply.
- d. Construct an alternate access to the spring area because of a freeway.
- e. Replace small mains and relocate them in the Bell Hill area.
- f. Replace small mains and relocate them in the Fields Landing area.
- g. Install a fire hydrant where a group of customers have requested it.
- h. Construct fences and other protective devices around various utility properties.

The staff report stated that customers contacted indicated that service was good; pressures checked met the Commission's minimum standard; the water quality was good.

The report concluded with one recommendation--that the Commission authorize the proposed rates outlined in the notice distributed to all customers in February and set forth in the report. The report contained no recommendations as to the other subjects of the Commission's order of investigation.

Respondent's Direct Showing

At conclusion of the staff's direct showing, respondent's president declined an opportunity to present direct evidence.

Public Protests

Ten witnesses testified in opposition to the proposed increase. These included, among others, the president of the largest customer, the King Salmon Mutual Water Company, the Director of Environmental Health of Humboldt County who is also a residential water customer of Coastair Electronics, a proprietor of a restaurant and cocktail lounge, an apartment house owner, and the member of the Board of Supervisors whose district includes Coastair Electronics' service area.

The president of King Salmon complained of poor water quality and presented jars containing samples of water taken during July from several different points in the King Salmon system. These samples were of water having a large amount of reddish-brown suspended matter which appeared to be compounds of iron and manganese. He testified that the brown water came in cycles, interposed with periods when clean water was supplied. It was the opinion of the witness that the brown sediment could be the result of clandestine pumping from the supposedly abandoned wells.

The president of King Salmon also alleged that respondent's president owned a pump and equipment company, a construction company, and possibly other enterprises. He said that these associated enterprises did work for Coastair Electronics and requested that the Commission investigate the reasonableness of the charges of the associated operations.

The Director of Environmental Health testified that he has made analyses of water from respondent's system from time to time in connection with his official duties. He reported that the bacteriological tests were always satisfactory but that frequently large amounts of sediment were present. In his opinion this condition could be the result of an inadequate program of main flushing.

The owner of the cocktail lounge and restaurant testified that the sediment in the water interfered with the operation of dishwashing and icemaking machines.

The County Supervisor delivered a statement, under oath, in which he expressed his concern and that of his constituents as to low pressure, poor water quality and lack of prompt response to service calls.

The remaining public witnesses complained of poor quality water and low pressures. One presented water samples from the Coastair Electronics system which closely resembled those from the King Salmon system. There were complaints that no telephone number was listed for the system and it was difficult to contact the representative of the utility in cases of service emergency. Although some customers complained of low pressures, others thought pressure to be adequate. In no case, however, was it claimed that the pressure fell below the 25 psi minimum prescribed by this Commission's General Order No. 103.

Respondent's Rebuttal Testimony

At the conclusion of testimony of the public witnesses, Coastair Electronics' president requested permission to present rebuttal testimony by himself and by the operator of the system.

Respondent's president testified that he and his wife acquired control of Coastair Electronics by purchasing all of the stock in 1969, and since that time had attempted to upgrade the system as available funds permitted. He drilled a deeper well to augment and hopefully replace the then existing poor quality well supply. The well drilling equipment and the new well were extensively sabotaged and the quality of the water from this well did not meet expectations. He attributed low pressures to the fact that many mains were undersized and also to the fact that the Humboldt Community Services District originally restricted delivery to the system by only permitting a 1-1/4-inch meter. This meter has been replaced by a 3-inch meter and pressures have improved.

As to intermittent turbidity and sediment, Coastair's president was of the opinion that this condition was an aftereffect of the long period when the principal source of supply was the poor quality wells. Sediment has accumulated in the mains which the utility has been unable to remove in the normal course of its flushing program. Surges in the line caused by routine tests of fire hydrants by the fire department disturb the sediment and cause the brown water of which customers complain.

Coastair's president testified as to his negotiations with Humboldt Community Services District and provided a copy of Coastair's contract with the District which was received in evidence as Exhibit 2.

The contract provides for the purchase by Coastair Electronics and Reynolds Water Company together, of a minimum of 3,000,000 gallons of water per month on a take or pay basis with a minimum monthly payment of \$761.90. If the utilities combined take more than 3,000,000 gallons in any one month, the price for the next 1,500,000 gallons is billed at the rate of 18 cents per 100 cubic feet. If more than 4,500,000 gallons are used in any one month, such excess will be billed at 17 cents per 100 cubic feet.

In regard to the allegations of possible excess profits by affiliated businesses, Coastair's president admitted that he employed his other enterprises to do work for Coastair Electronics but, following a recommendation of the staff, limited their gross profit, including overheads, to 7 percent of sales.

The operator of the Coastair Electronics system testified that he had been employed by respondent for about ten months. Before that he had had many years experience as an operating engineer. In addition to the Coastair system he operates the Reynolds Water Company's system, the stock of which is also owned by Coastair's president. The operator testified that he had personally sealed the abandoned wells by welding plates to the casings so that there was no possibility of their surreptitious use. He also testified that he flushes the mains at approximately 30-day intervals by means of opening fire hydrants.



Cross-Examination

The staff engineer was cross-examined by several of the public appearances, including the president of King Salmon, by respondent, and was also questioned by the Examiner. In the course of the cross-examination the annual reports to the Commission of Coastair Electronics for the years 1965 to 1971 and of Reynolds Water Company from 1967 to 1971 were incorporated into this record by reference and we take official notice of these reports.

In answer to questions by the appearances, the staff engineer testified that he considered material purchased from and construction work done by respondent's affiliates to be reasonably priced. He based this conclusion on general impressions he had of similar costs incurred by other water utilities. He made no independent verification of the reasonableness of costs of specific items, however. He testified that he did not investigate the margins of profit made by Coastair Electronics' associated companies on their business with Coastair.

The staff engineer agreed that, because of tax loss carry-overs, there would be no likelihood of any federal income tax actually being paid for at least the next three years.

In regard to the brown sediment in the water, the staff engineer said that he had contacted the local fire district and had learned that the fire department had been making hydrant tests on the days upon which the samples had been collected. He modified his previous conclusion that no changes in operations and practices of the utility were necessary by recommending an expanded main flushing program be instituted. He proposed that, after notice to customers, the mains be flushed at periods of highest use by opening fire hydrants. He felt that the higher than normal water velocities generated by this practice should be sufficient to dislodge accumulated sediment from the mains.

The staff witness explained that the \$3,000 reduction proposed by the staff in the allowance for employee labor is a net figure, obtained by reducing operation and maintenance labor from \$6,316 to \$3,000, and by providing for \$300 accounting and legal expense, whereas none was recorded in 1971. In addition, the staff allowed an increase in managerial salaries from \$5,500 to \$6,000 so that the net overall reduction in wages and salaries amounted to \$2,500.

As to the billing comparison, the staff engineer estimated that 90 percent of the customers would use less than 2,000 cubic feet and would therefore receive increases ranging from 54 percent to 64 percent.

Respondent's president, on cross-examination, explained that Coastair Electronics had been organized to operate a commercial broadcast radio station and that the water system had been acquired as a sideline. The radio station was subsequently sold and Coastair Electronics continued to operate the water system, which at present is its sole activity. Respondent's president testified that, in addition to Coastair Electronics, Inc. and Reynolds Water Company, he owned a pump and equipment company, a construction company, and has an interest in another construction company. Although work done by his associated enterprises was billed to Coastair Electronics at cost plus 7 percent, his overhead often ran as high as 27 percent. Sales of water from Reynolds to Coastair were billed at rates contained in the filed tariffs. The books of his associated enterprises are open to the staff should it care to investigate.

Respondent's president testified that he operates his two water systems with himself, a part-time bookkeeper and the full-time operator previously mentioned. A telephone listing has been obtained and the president or the operator is available in case of emergency.

#### Discussion of Water Quality and Service

It is apparent from the testimony that the turbid water that is the source of most of the customer dissatisfaction is the result of accumulated sediment in the mains. With the abandonment of the well supply and institution of a regular schedule of main flushing, the sediment should, in time, be eliminated from the Coastair system. Since King Salmon Mutual has no blow off valves nor fire hydrants, dirty water conditions are apt to be a problem with that system until some means are found to eliminate sediment from the mains. The owner-customers of King Salmon Mutual should consider installation of blow off valves at appropriate locations. A means of routine main flushing is necessary even for systems having a reasonably high quality water supply and a program of main flushing is considered ordinary good water works practice.

The low pressures of which customers complained, while above the Commission's minimum standard, are not desirable. The plans of the utility to replace the smaller mains should result in improved pressure.

#### Discussion of Results of Operations

The staff's showing indicates that additional revenues in an amount of \$15,200 are required to produce a recommended rate of return of 7.6 percent on the staff's rate base. The expenses and plant investment attendant to this rate base include affiliate profits, the amount of which, and reasonableness of, are not to be found in this record. The staff's federal income tax allowance is for an amount that will not, because of tax loss carryovers, be paid to the federal government.

The 1971 Annual Report of Coastair Electronics shows operating revenues of \$29,764 and that of Reynolds Water Company shows revenues of \$23,110, for a total of \$52,874. If Coastair's requirement for additional revenues had been presented by means of the usual procedure of an application filed according to the

Commission's Rules of Procedure, the Commission would have available the statement of material financial interest required by Rule 23, paragraph (i). In this proceeding, the rate increase is sponsored by the staff in a Commission investigation, and the issue of possible undue affiliate profits was raised by the members of the public, who have neither the authority nor the expertise to delve into the subject. The troublesome question of affiliate profits has been a concern of the Commission since its inception.<sup>1/</sup> In the absence of an adequately tested showing as to the reasonableness of affiliate charges, we are unable to make a finding of a reasonable rate base, operating and maintenance expenses, and depreciation.

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<sup>1/</sup> In Southern Sierras Company, Decision No. 224, dated September 16, 1912, in Application No. 220 (1 CRC 556, 558), the Commission said, "The construction of a utility's plant by a subsidiary construction company consisting of the same people will always call for the most careful scrutiny of this Commission in a rate case or in an application to issue stocks, bonds, or other securities."

Adopted Results

It is clear that respondent is faced with a substantial increase in operating costs in connection with water purchases incurred for the benefit of its customers. It is also clear that failure to offset the increased operating costs of purchased water by increased revenues could result in the utility's operating at a loss, and as near as can be determined, an out-of-pocket loss.

In his summation staff counsel reminded the Commission that the Supreme Court of California has held that the Commission has no power to compel the continued operation of a public utility at a loss, where the owner of that utility is willing to and in fact does abandon to the public all its property that has been devoted to the public use.<sup>2/</sup>

We are, of course, well aware of this principle. Even though in this case the utility has not filed an application for increased rates (the rate increase instead being urged by the staff) and also considering the fact that the utility has given no indication that it wishes to abandon its property to the public use, we are of the opinion that revenues should be increased to offset known and reasonable estimates of increased out-of-pocket expenses. The order that follows will provide for increased revenues in an amount of approximately \$12,700, an increase of 41 percent, derived as follows:

Additional cost of purchased water	\$16,000
Savings in purchased power	(3,500)
Increased property taxes	128
Increased Minimum Corporation Franchise tax	100
Total	\$12,728

(Red Figure)

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<sup>2/</sup> Lyon and Hoag v. Railroad Commission, 183 Cal. 145 (1920).

We will not reduce the operating expenses by \$2,500 as recommended by the staff. The allowance of \$3,000 for operation and maintenance labor proposed by the staff does not appear to be adequate to provide for the level of maintenance, particularly main flushing, that this system requires.

Because of high interest charges in an amount of \$5,680, and the inclusion of \$2,500 more operation and maintenance expense than recommended by the staff, no allowance for federal income tax is necessary. Furthermore, for the next three years, respondent will have no federal income tax liability.

Should respondent feel that the rates authorized herein are not adequate, it may file an application, with the disclosures required by our Rules of Procedure, for the rates which applicant believes will provide a reasonable return on its prudent investment.

#### Rate Spread

The increased costs of operation are principally the result of increased cost of water. We are therefore not convinced that the smallest users should bear the largest percentage increases, especially in view of the evidence that 7 customers account for 75 percent of the water deliveries. The order which follows will provide for an approximate 41 percent across the board increase in metered rates, with corresponding increases in minimum charges. It is inappropriate, with the relatively high cost of purchased water, to provide for continuation of the flat rate schedule. Flat rates do not promote conservation of water, and, while seldom desirable, are suitable only in those locations where the commodity cost of water is a relatively small portion of the total overall cost of service. In the order that follows we will grant a temporary increase in flat rates of approximately 41 percent and we will direct that the flat rate schedule expire on December 31, 1973.

### Findings and Conclusions

The Commission finds that:

1. Respondent is in need of additional revenues but the need for the rates recommended by the staff has not been demonstrated.
2. The record in this case does not contain sufficient information and disclosure of intercorporate transactions between respondent and associated enterprises to permit the adoption of reasonable estimates of operating and maintenance expense, rate base, and rate of return.
3. Respondent has paid no federal income tax in the last seven years and will not pay any until accumulated tax carryovers are used up or expire.
4. Out-of-pocket operating costs for the estimated year 1972 will be approximately \$12,700 higher than those experienced in 1971.
5. Additional revenues in the amount of \$12,700 are required to offset increased out-of-pocket expenses.
6. Flat rates are inappropriate for this system.
7. The utility has a total of three employees, none of whom devote their full time to the operations of respondent's system.
8. Pursuant to subparagraph A of Rule 23.1 of the Commission's Rules of Procedure, the increases are exempt from the requirements of that Rule because applicant qualifies for the small business exemption set forth in Title 6, Economic Stabilization Act, Section 101.51, Subpart E.
9. 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 unjust and unreasonable.

The Commission concludes that:

1. Respondent's rates should be increased to the extent set forth in the order which follows.
2. Flat rates should not continue beyond December 31, 1973.
3. The investigation in Case No. 9394 should be discontinued.

C R D E R

IT IS ORDERED that:

1. After the effective date of this order, Coastair Electronics, Inc., dba Fields Landing Water Works, is authorized to file the revised rate Schedules Nos. 1 and 2RX attached to this order as Appendix A, and concurrently shall withdraw and cancel presently effective tariff Schedules Nos. 1 and 2R. 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. The investigation in Case No. 9394 is discontinued.

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

Dated at San Francisco, California, this 31<sup>st</sup>  
day of OCTOBER, 1972.

Vernon L. Stevenson  
President  
William J. Squires, Jr.  
[Signature]  
[Signature]  
Commissioners

*I abstain*

*J. R. K. [Signature], Commissioner*



APPENDIX A  
Page 1 of 2

## Schedule No. 1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

In and in the vicinity of the unincorporated communities of Sea View Manor and Fields Landing, Humboldt County.

RATES

## Quantity Rates:

First	400 cu.ft. or less .....	\$ 4.15	(I)
Next	1,600 cu.ft., per 100 cu.ft. ....	.60	
Next	3,000 cu.ft., per 100 cu.ft. ....	.46	
Over	5,000 cu.ft., per 100 cu.ft. ....	.32	(I)

Per Meter  
Per Month

## Minimum Charges:

For	5/8 x 3/4-inch meter .....	\$ 4.15	(I)
For	3/4-inch meter .....	5.50	
For	1-inch meter .....	8.50	
For	1 1/2-inch meter .....	11.50	
For	2-inch meter .....	23.00	
For	3-inch meter .....	36.00	
For	4-inch meter .....	55.00	(I)

Per Meter  
Per Month

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

APPENDIX A  
Page 2 of 2

Schedule No. 2RX

TEMPORARY RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

In and in the vicinity of the unincorporated town of Fields Landing, Humboldt County.

RATES

	Per Service Connection Per Month	
For a single-family residential unit, including premises not exceeding 6,000 sq.ft. in area .....	\$5.00	(I)
a. For each additional single-family residential unit on the same premises and served from the same service connection .....	2.50	(I)
b. For each 100 sq.ft. of premises in excess of 6,000 sq.ft. ....	.05	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. If either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service.
3. This schedule shall be effective only to and including December 31, 1973, and will thereafter be withdrawn.