

Decision No. 84504**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
GIBBS RANCH WATER CO., a corporation,  
for authority to increase the rates  
charged for furnishing water as a  
public utility, under Section 454 of  
the Public Utilities Code.

Application No. 54905  
(Filed May 28, 1974)

David B. Nemer, Attorney at Law, and Sanford P.  
Blank, for applicant.  
Dr. Victor Child, for Rancho Sonora Estates  
Homeowners' Association, protestant.  
John E. Brown, for the Commission staff.

O P I N I O N

Applicant furnishes water as a public utility in an unincorporated area of Tuolumne County near Sonora. It seeks a rate increase of approximately \$12,000. The present rates were established by advice letter filing in 1971.

The table compares applicant's present and proposed rates.

TABLE I

		<u>Per Meter</u> <u>Per Month</u>		<u>Percent</u> <u>Increase</u>
<u>Monthly Quantity Rates:</u>		<u>Present</u>	<u>Proposed</u>	
First	800 cu.-ft. or less	\$ 4.50	\$ 6.91	53.6%
Next	2,200 cu.-ft., per 100 cu.-ft.	0.30	0.46	53.3
Next	7,000 cu.-ft., per 100 cu.-ft.	0.24	0.37	54.2
Over	10,000 cu.-ft., per 100 cu.-ft.	0.18	0.27	50.0
<u>Annual Minimum Charge:</u>				
For	5/8 x 3/4-inch meter	54.00	83.00	53.7
For	3/4-inch meter	70.00	108.00	54.3
For	1-inch meter	100.00	154.00	54.0
For	1-1/2-inch meter	175.00	269.00	53.7
For	2-inch meter	250.00	385.00	54.0
<u>Schedule No. 5</u>				
For each hydrant		2.40	3.70	54.2

Applicant is a corporation wholly owned by Harrison L. Gibbs, who is the developer of Rancho Sonora Estates and other nearby land which comprises the service area. Mr. Gibbs also owns and operates a sewer utility serving the same area.

The water company receives all of its water from Pacific Gas and Electric Company's Tuolumne Water System. The water flows through a measuring flume and thence to a 5,000,000-gallon reservoir formed by an earth dam. A pipeline then carries the water to a 400,000-gallon concrete-lined reservoir. Water from this reservoir is chlorinated and then pumped to a 100,000-gallon steel reservoir; from there, it enters the gravity-flow distribution system, which consists of about 45,000 feet of asbestos-cement and PVC pipe. There is a 25,000-gallon redwood tank at an intermediate point in the system. As of June 30, 1974 there were 206 residential customers, one commercial customer, and one irrigation customer.

Public hearing was held in Sonora before Examiner Gilman on October 30 and 31, 1974. Applicant's accountant and its owner-manager testified and presented exhibits in support of the application. Staff offered the testimony of an engineering witness, in opposition. A high proportion of applicant's customers were in attendance. At the hearing 30 of them indicated their positions for the record as follows:

- 2 - no position indicated.
- 1 - for an increase.
- 5 - for only a partial or justified increase.
- 22 - opposed to any increase.

In addition, several customers testified or made statements in opposition to an increase.

One major irritant was the bad taste in the water during the past two summers. The record indicates that this bad taste was caused by the growth of blue-green algae in the uncovered 400,000-gallon reservoir during periods of warm temperature. Chlorination destroys the algae, but leaves an unacceptable taste. Prior to the last two years, applicant controlled algae growth by aeration. The aeration system was turned off to save energy, apparently without notice to the customers or the Commission.

One customer complained that the utility had failed to refund a credit deposit as required by tariff. The utility's owner later testified that that violation had been remedied and the refund made during the course of the hearing.

#### Rate Base

The table below sets forth the staff's evidence concerning plant in service for 1974 estimated:

TABLE II

<u>Utility Plant in Service</u>	
Beginning of Year, Recorded	\$164,775
Adjustment for Oversized Plant	(4,200)
Beginning of Year, Adjusted	160,575
Additions	2,000
Retirements	-
End of Year, Adjusted	162,575
Average	161,575
USE	161,600

(Red Figure)

The oversize adjustment was based on the staff's claim that the concrete-lined reservoir was too large for its present use. The \$2,000 in additions represents telemetering equipment acquired in 1974.

The utility claimed that additional plant, required by the State Health Department, would be in service during 1975 and ought to be included in rate base (and in depreciation and as an element of ad valorem tax expense). The additional plant was recommended by a representative of the State Health Department (apparently in response to consumer complaints over the taste of water), and applicant argues that he may not be able to obtain a water supply permit from the Department if these improvements are not installed.

The improvements consist of a sand filter together with facilities for backwashing, pre-chlorination, and totally automatic and fail-safe post-chlorination; the tanks would be covered. Staff took the position that any allowance for such installations or their cost of operation would be premature and that consideration of these costs should be deferred until after construction of the facility.

An order and findings of the State Department of Health, entered within the scope of its jurisdiction would be entitled to at least the same respect before this Commission as it would before a court. The plant improvement recommendations, however, are not in an order or decision but are merely in a letter written by the local representative of the Department which was presented by applicant's attorney without any opportunity for testing the opinion on cross-examination. In a matter as controversial as this, we do not believe that we should rely on hearsay opinion. Consequently, we find that applicant's plant and/or operations<sup>1/</sup> are inadequate and

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<sup>1/</sup> The aeration system which apparently controlled algae growth is presumably still in place and capable of functioning.

unsatisfactory because of the algae bloom and attendant taste problems. However, there is insufficient evidentiary foundation to support a finding as to the best method to remedy the situation. We note that chlorination is no longer the unquestioned sole method for sterilizing drinking water; nor is a sand filter necessarily the best method of dealing with organic contaminants (cf. Is the Water Safe to Drink? Consumer Reports, June, July, and August 1974). We think before any commitment is made to specific plant additions, the public which will inevitably be expected to pay for the improvements ought to be assured that the plant does not include any unneeded elements and that the needed items are designed in a cost-effective manner. We will set rates based on plant now in service with provision for a further rate increase after completion of necessary plant improvements.

The table below is staff's calculation of test year rate base:

<u>Rate Base</u>	
<u>Item</u>	<u>Staff 1974 Estimated</u>
Average Utility Plant	\$161,600
Materials and Supplies	1,000
Working Cash	<u>1,600</u>
Subtotal	164,200
Less:	
Advances for Construction	50,900
Average Reserve for Depreciation	<u>35,800</u>
Average Depreciated Rate Base	77,500

We will adopt the staff's calculation.

#### Management Salaries

The staff allowed \$3,000 for management salaries (this Account, Number 791, in the Uniform System of Accounts, includes all the compensation received by Mr. Gibbs regardless of whether he is performing a management function, or whether he is engaged in skilled or unskilled labor).

This was based on an estimate of \$9.00 for 250 hours of management work and \$3.00 for 250 hours for services as a skilled laborer.

Applicant seeks an allowance of \$5,200 for Mr. Gibbs' services, based on the claim that a small water system needs a great deal of skilled attention. The record, however, shows that applicant's owner and manager, in at least one instance because of ignorance of the utility's published rules, had failed to refund a credit deposit, despite a complaint by the affected consumer.

We also note that the corporation's owners (i.e., the Gibbs family) were willing to provide management services without charge until the end of 1972. Not until the end of subdivision sales came into view in 1973 did applicant grant Mr. Gibbs a salary of \$2,000, increased by 10 percent in 1974. Assuming that the previous accounts were accurate and reasonable, there is no explanation for a 100 percent increase in a single year.

In this regard, the recurrence of an algae bloom, and denial of a customer's legitimate refund claims, are not indicative of adequate management of the utility's operations.

Taking into consideration the facts before us, including recent historical compensation levels and management deficiencies, we think the staff estimate of allowance for managerial salary is reasonable, and it will be adopted.

#### Office Salaries

This is primarily an issue of allocating a single employee's time between Mr. Gibbs' utility and his nonutility enterprises. Based on Mr. Gibbs' close observations of the actual efforts of this employee and his knowledge of the tasks performed, applicant estimated that \$2,400 of that employee's total pay should be allocated

to water service. The staff used an estimate based on reasonable cost per customer per month.

Applicant's estimate would in effect charge each customer an average of nearly a dollar a month. While the staff estimate would have been more persuasive if it had expressly included comparisons with more efficient water utility operations of comparable size, we think the staff's estimate is reasonable and should be adopted.

Rate of Return

The staff recommended a rate of return falling between 8.5 and 9 percent. Applicant did not challenge this figure. We will adopt 8.5 percent as reasonable. Given the present rate base, this allows the company to earn net revenue of approximately \$6,600 per year or slightly more than \$30 per connection. The gross amount of the increase is approximately \$7,900.

The table below compares the final estimates of staff and applicant and the estimates we have adopted for operations before the installation of necessary plant improvements.

TABLE III  
Test Year 1974

Item	Staff		Applicant	Adopted Results
	Present Rates	Proposed Rates	Proposed Rates	
Operating Revenues	\$23,010	\$35,360	\$35,360	\$30,880
<u>Operating Expenses</u>				
Purchased Water	1,840	1,840	1,670	1,840
Power	2,120	2,120	1,930	2,120
O&M - Employee				
Labor	1,450	1,450	1,450	1,450
O&M - Materials	730	730	730	730
O&M - Contract Work)	600	600	2,400	600
Office Salaries				
Management				
Salaries	3,000	3,000	5,200	3,000
Office Supplies and				
Expense	1,380	1,380	1,380	1,380
Insurance Expense	180	180	180	180
Accounting, Legal,				
and Other				
Services	1,050	1,050	1,050	1,050
General Expense -				
Rate Case	1,200	1,200	1,233	1,200
General Expense -				
Other	40	40	-	40
Vehicle Expense	970	970	970	970
Office and Storage				
Space Rental	600	600	600	600
Subtotal	15,160	15,160	18,793	15,160
Depreciation Expense	4,760	4,760	4,930	4,760
Taxes Other than				
Income	1,820	1,820	2,240	1,820
Income Taxes	270	3,790	2,587	2,510
Total Deductions	22,010	25,530	28,550	24,250
Net Revenue	1,000	9,830	6,910	6,630
Average Depreciated				
Rate Base	77,500	77,500	80,215	77,500
Rate of Return	1.3%	12.7%	8.6%	8.5%
Customers	211	211	211	211



Findings

1. The estimates and figures given in the fifth column of Table III are reasonable.

2. A return of 8.5 percent on rate base is reasonable.

3. In addition to the expenses, including income taxes, depreciation, and return, found reasonable in Finding 1, applicant is expected to pay \$4,000 in additional salaries during the test year. We have disallowed this \$4,000 payment as excessive. Nevertheless, Internal Revenue Service treatment of the \$4,000 payment may result in an actual tax decrease of \$1,280. Just as we are not allowing the excessive \$4,000 salary payment, so also we will not include the expected \$1,280 tax decrease in our adopted results of operations estimate for the test year.

4. Applicant's system and/or operations are not satisfactory; applicant supplies water which is unpleasant to drink during warm summer months.

5. There is insufficient evidence to make a finding as to the most cost-effective method of dealing with this problem.

6. The increases in rates and charges of approximately \$7,900 authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

7. Applicant should:

- (a) Meter water used by the affiliated sewer utility and charge the sewer utility in accordance with the authorized metered rate schedule.
- (b) Revise the irrigation service rates in proportion to the changes in other rates which may be authorized as a result of the application.

- (c) Segregate operation and maintenance accounts for employee labor, materials, and contract work as specified by the Uniform System of Accounts for Class D Water Utilities.
- (d) File a revised service area map showing current boundaries, principal streets, and other identifying features.
- (e) Maintain a customer complaint file.
- (f) Prepare and present a plan for dealing with its algae problems.

Conclusions

1. The rate increase should be granted in part and denied in part.
2. The supplementary ordering paragraphs adopted herein are just, reasonable, and necessary in the public interest.
3. If, within 36 months after the effective date of this order, applicant completes the installation of facilities to alleviate the taste problems and to comply with other present requirements of the State Health Department, the Commission will, by supplemental order herein, authorize any further increase in rates which may be justified by such improvements.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant Gibbs Ranch Water Co. is authorized 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 five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

2. Within forty-five days after the effective date of this order, applicant shall file a revised tariff service area map, appropriate general rules, and sample copies of printed forms that are normally used in connection with customers' services. Such filing shall comply with General Order No. 96-A. The effective date of the revised tariff sheets shall be five days after the date of filing.

3. Applicant shall prepare and keep current the system map required by paragraph I.10.a. of General Order No. 103-Series. Within ninety days after the effective date of this order, applicant shall file with the Commission two copies of this map.

4. Applicant shall cause to be prepared, by a qualified person able to be called for cross-examination, a plan for dealing with its algae problems, which shall be served and filed not later than sixty days after the effective date of this order. The plan shall set forth the alternatives considered, the reasons for rejection of alternatives, and its total cost per connection. If the plan has any benefits other than elimination of algae-related tastes and odors, these benefits shall be identified and a cost allocation shall be set forth. If no protest to the plan is filed and served within forty days after the plan is filed, applicant shall forthwith effectuate it. If installation of the improvements is completed within 36 months after the effective date of this order, applicant shall file with the Commission a report setting forth the costs of installation and the estimated cost of operation of such improvements.

5. Applicant shall:

- (a) Meter water used by the affiliated sewer utility and charge the sewer utility in accordance with the authorized metered rate schedule.
- (b) Revise the irrigation service rates in proportion to the changes in other rates which may be authorized as a result of the application.
- (c) Segregate operation and maintenance accounts for employee labor, materials, and contract work as specified by the Uniform System of Accounts for Class D Water Utilities.
- (d) File a revised service area map showing current boundaries, principal streets, and other identifying features.
- (e) Maintain a customer complaint file.

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

Dated at San Francisco, California, this 3rd day of JUNE, 1975.

Vernon L. Sturgeon  
President  
William Sproule Jr.  
Robert K. Ross  
Robert K. Ross  
Commissioners

APPENDIX A  
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## Schedule No. 1A

ANNUAL GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

The area known as Rancho Sonora Estates and vicinity, located about one mile west of Sonora, Tuolumne County.

RATES

		Per Meter Per Month	
Monthly Quantity Rates:			
First	800 cu.ft. or less .....	\$ 5.83	(I)
Next	2,200 cu.ft., per 100 cu.ft. ....	.39	
Next	7,000 cu.ft., per 100 cu.ft. ....	.31	
Over	10,000 cu.ft., per 100 cu.ft. ....	.23	
		Per Meter Per Year	
Annual Minimum Charges:			
For	5/8 x 3/4-inch meter .....	\$ 69.00	(I)
For	3/4-inch meter .....	90.00	
For	1-inch meter .....	130.00	
For	1 1/2-inch meter .....	225.00	
For	2-inch meter .....	325.00	

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

(Continued)

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Schedule No. 1A

ANNUAL GENERAL METERED SERVICE  
(Continued)

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1, and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated minimum charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods for water used in excess of the monthly allowance under the annual minimum charge. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis.

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual minimum charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ( $1/365$ ) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

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Schedule No. 3LM

LIMITED MEASURED IRRIGATION SERVICEAPPLICABILITY

Applicable to untreated water for irrigation purposes from the company's irrigation system.

TERRITORY

Rancho Sonora Estates and vicinity, located about one mile west of Sonora, Tuolumne County.

RATES

A. Irrigation season, six-month period April 15 to October 15 inclusive:

Service Charge:	<u>Per Season</u>	
Per irrigation connection.....	\$20.00	(I)

Charge for Turn on, Turn off or Regulation Charge:

First 6 turn ons, turn offs or regulation changes....	No Charge
Over 6 turn ons, turn offs or regulation changes, per change.....	\$ 4.00

Quantity Rates:

	<u>Per Connection</u> <u>Per Month</u>
First 23 miner's inch-days, per miner's inch-day....	\$ 0.85
Next 57 miner's inch-days, per miner's inch-day....	.75
Over 80 miner's inch-days, per miner's inch-day....	.65

(Continued)

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## Schedule No. 3LM

LIMITED MEASURED IRRIGATION SERVICERATES—Contd.

- B. Nonirrigation season, six-month period October 16 to April 14 inclusive: (I)

## Quantity Rates:

Per Miner's  
Inch-Day

For all water delivered..... \$0.80

## Minimum Charge:

Per Connection

For each delivery..... \$5.00 (I)

SPECIAL CONDITIONS

1. Minimum delivery flow rates under this schedule are as follows:

	<u>Miner's Inch</u>
During irrigation season.....	$\frac{1}{2}$
During nonirrigation season.....	$\frac{1}{4}$

2. The company may require a 48-hour notice from the customer for changes in the rate of water delivery.

3. The water supplied under this schedule is untreated water from open ditches, canals, conduits and flumes. The company does not represent or guarantee that any water delivered hereunder is potable or of a quality suitable for human consumption. Any customer who uses said water or makes it available to others for human consumption shall take all necessary precautions to make the same potable and shall assume all risks and liabilities in connection therewith.

(Continued)



Schedule No. 3LM

LIMITED MEASURED IRRIGATION SERVICE

SPECIAL CONDITIONS—Contd.

4. The company does not guarantee a continuous and uninterrupted supply under this schedule and reserves the right to temporarily suspend the delivery of water when necessary.

5. Service under this schedule is limited to customers who may be served directly from the utilities existing irrigation facilities.

6. In no event will the utility furnish service under this schedule to a customer with premises less than  $2\frac{1}{2}$  acres in area.

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Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized fire districts and other political subdivisions of the State.

TERRITORY

The area known as Rancho Sonora Estates and vicinity, located about one mile west of Sonora, Tuolumne County.

RATE

	<u>Per Month</u>
For each hydrant .....	\$3.10 (I)

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges shall be made at the quantity rates under Schedule No. 1A, Annual General Metered Service.
2. Relocation of any hydrant shall be at the expense of the party requesting relocation.
3. Fire hydrants shall be attached to the utility's distribution mains upon receipt of proper authorization from the appropriate public authority. Such authorization shall designate the specific location at which each is to be installed.
4. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.