

SW/NB

Decision No. 85159

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CRESTMORE VILLAGE WATER COMPANY,
a California corporation, to
terminate water service.

Application No. 55217
(Filed September 27, 1974;
amended June 27, 1975)

George C. Lyon, Attorney at Law,
for applicant.
Frank P. Sherrill, for Palmdale
Water District; and Donal C.
Carty, for Petersen Publishing
Company; interested parties.
Robert M. Mann, for the Commission
staff.

O P I N I O N

This was originally filed as an application by Crestmore Village Water Company, a California corporation (Crestmore), to terminate its water service to nine existing customers near the city of Palmdale in Los Angeles County. The total service area of Crestmore is 160 acres divided into 27 parcels which average between five and six acres. Eighteen of the 27 parcels are presently vacant and have not required any water service during the past two years. Nine of the parcels are presently being served. There are no public fire hydrants being served. All services on the system are metered. Crestmore is a Class "D" water utility and is presently requesting that all rates presently applicable to any class of water service other than metered be discontinued in this proceeding.

For many years prior to January 28, 1974 Crestmore was engaged in the operation of two public utility water systems in the Palmdale area of Los Angeles County. One was known as the East Palmdale Water System. This system was sold to the city of Los Angeles for the sum of \$100,000 pursuant to an agreement between the city of Los Angeles and Crestmore and approved in D.82283 dated January 3, 1974. The other system is the Palmdale Poultry Ranchos Water System which is the subject of the instant application. In D.82283, Finding 5 stated "The remaining nine-customer system is too small to support continued operations of a public utility water corporation. Public convenience and necessity require that some provision be made for the protection of persons served by this system, such as its acquisition by the irrigation district presently supplying water to it, or by forming a mutual water company." Another finding stated Crestmore's continuing obligation to supply water to the nine customers on the remaining system. The same decision further ordered Crestmore to place the sale proceeds in escrow, after providing funds for discharge of all debts and outstanding obligations, to assure continued water service in Crestmore's remaining service area until further Commission order. Crestmore's balance sheet as of May 31, 1975 indicated that there was approximately \$67,000 of these funds left in the escrow.

The application as originally filed asked to abandon to the public all its property devoted to public use and to discontinue its public utility water system since to continue the operation at a loss amounts to the taking of property without compensation contrary to the constitutional rights of Crestmore. This matter was additionally raised in a brief and motion filed by Crestmore which was denied by the examiner, primarily on the grounds that Crestmore as an entire entity was

still in a profit-making posture because of the interest income on the funds in escrow from the sale of its other system to the city of Los Angeles, although there was no dispute that the remaining nine-customer system is operating at a deficit.

The existing nine customers are all tenants of the resident properties. Petersen Publishing Company of Los Angeles owns five of the lots. C. Ellis Pursley and Max Spielberg of Lancaster own one of the lots. Ellis Pursley of Lancaster owns two of the lots and John E. Field of Santa Rosa owns the remaining lot now being served. The service area is technically in the Antelope Valley-East Kern Water Agency service area, but this agency only wholesales water and does not sell at retail. The service area is adjacent to the Palmdale Water District, a municipally owned utility. Two prehearing conferences were held before Examiner Phillip E. Blecher. The first, on March 12, 1975, explored the possibilities of the sale of the system to either Palmdale Water District or the Petersen Publishing Company or the formation of a mutual water company by Petersen and the other owners. Negotiations were commenced and continued to the second prehearing conference held on April 21, 1975. Notice of this conference was given to all the tenants, all the owners, and all the concerned water districts as well as to other interested parties. The only appearances were as indicated above, all of which appearances had appeared at the first prehearing conference. Petersen indicated that it had no desire to form its own water company or participate in a mutual company but indeed was desirous of selling the property it now owns in that area, which consists of six additional vacant lots in addition to the five lots being served by Crestmore. The Palmdale Water District indicated it

might take over the system under certain conditions and negotiations continued thereafter. It was subsequently determined that the conditions imposed by the water district for the takeover of these nine customers were unacceptable to Crestmore and would require the payment by Crestmore of a sum of money almost equivalent to its entire assets from utility and nonutility property. Therefore, because the utility property was operating at a loss, the examiner on May 28, 1975 required Crestmore to file an amended application requesting a rate increase so as to provide a compensatory rate of return. This amendment was filed on June 27, 1975 and subsequently analyzed by the staff which made certain recommendations as shown later.

At the conference on April 21, 1975 nine documents were admitted into evidence and informally discussed. Exhibit 2 indicates that Crestmore had a loss of \$830.30 for 1974 in its utility operations, although it had a profit of \$469.72 for its total operations. In its amendment to the application whereby Crestmore asks for a rate increase as an alternative to terminating its service, it also asks that consumer deposits be increased from \$10 to \$20 and proposes rates as set forth in the table below and indicates for adjusted 1974 Crestmore had a loss of \$2,834 and in estimated 1975 a loss of \$2,624 from its utility operations. For the first five months of 1975 recorded the amended application also indicated a loss of \$423.32 from its utility operations. Based on its proposed rates Crestmore would earn a rate of return of 8.3 percent on net operating revenue of \$273 for 1975 estimated on a rate base of \$3,272. The net revenue results from a proposed increase of 325 percent in rates on a net increase in dollars of \$2,817. The table below indicates

the company's requests, the staff's suggestions, and the figures we are adopting to determine the necessary revenues for Crestmore.

Table 1

Item	Applicant		Staff	
	1974	1975	1975	1975
	Adjusted	Proposed	Proposed	Adopted
Number of Customers (All Metered)	9	9	9	9
Total Operating Revenues (All Metered)	\$ 865	\$3682	\$1975	\$2773
Percent Increase Revenue Increase	\$ -7%	\$2817 325%	\$1110 128%	\$1908 221%
<u>Operating Expenses</u>				
Purchased Water	625	660	550	550
Employee Labor	450	450	-	450
Insurance	13	48	-	48
Accounting, Legal, etc.	1400	1400	800 ^{1/}	840
General Expense	604	240	-	75
Total Expenses	3092	2798	1350	1963
Depreciation	126	126	126	126
Property Taxes	96	100	100	100
Other Taxes	185	185	-	185
Income Taxes	200	200	244	244
Total Deductions	3699	3409	1820	2618
Net Revenue	(2834)	278	155	155
Net Plant & Rate Base	3335	3272	3272	3272
Return on Rate Base	-7%	8.3%	4.7%	4.7%

(Red Figure)

^{1/} Figure represents all operating expenses except purchased water.

The company has proposed a readiness-to-serve charge of \$30 per month applicable to all metered service to be added to the monthly charge computed at the quantity rates. The quantity rate per 100 cubic feet is 50 cents. We think a more appropriate rate spread would be on a minimum charge basis where the first 400 cubic feet or less would be \$17 per month. The next 2,100 cubic feet would be \$1.50 per 100 cubic feet and thereafter 50 cents per 100 cubic feet. Although we generally do not favor such a large percentage and dollar increases in the costs of water service we also believe it unfair to require the applicant to continue its utility operations while operating at a loss. Since the dollar profit and rate of return are both comparatively nominal they are fair under the circumstances and, therefore, we conclude that the rates we are adopting and the rate spread we have just discussed are just and reasonable and should be adopted.

We do not believe it is necessary to increase the customer deposits from \$10 to \$20.

Findings

1. The increases in rates and charges 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.

2. The large percentage increase in rates and charges authorized by this decision are required to make the utility operations of applicant compensatory so that applicant shall not be operating the public utility water system at a deficit.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant Crestmore Village Water Company, a California corporation, 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. The application to terminate water service to its existing nine customers is denied.

5. All rates presently applicable to other than metered service may be discontinued, and so reflected in the new tariffs required to be filed herein.

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

Dated at San Francisco, California,
this 18th day of NOVEMBER, 1975.

President

 Commissioners

APPENDIX A

Schedule Nol PD-1

Palmdale Tariff AreaMETERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Palmdale Poultry Rancho (Tract No. 15497) near Palmdale, Los Angeles County.

(T)
(T)

RATES

Quantity Rates:

	<u>Per Meter</u> <u>Per Month</u>	
First 400 cu.ft. or less	\$17.00	(I)
Next 2,100 cu.ft., per 100 cu.ft.	1.50	‡
Over 2,500 cu.ft., per 100 cu.ft.50	(I)

Minimum Charge:

For 5/8 x 3/4-inch meter	17.00	(I)
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The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.