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Decision No. 85766

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

GEORGE L. PETREA, et al.,

Complainants,

vs.

JOSEPH C. SMYTH and VIC KLEIWER, dba COARSEGOLD HIGHLANDS WATER SYSTEM,

Defendants.

Case No. 9991
(Filed October 16, 1975)

In the Matter of the Application of COARSEGOLD HIGHLANDS WATER SYSTEM, and LINTON E. FORRESTER and ELEANOR FORRESTER, for an order authorizing the sale and transfer to LINTON E. FORRESTER and ELEANOR FORRESTER of the water distribution system and certificate of public convenience and necessity.

Application No. 56265
(Filed February 9, 1976)

George L. Petrea, for complainants.
Joseph C. Smyth, for himself and Vic Kleiwer dba Coarsegold Highlands Water System, defendants.
James Squeri, Attorney at Law, and E. M. Lill, for the Commission staff.

O P I N I O N

On October 16, 1975, 8 of the 11 customers of Coarsegold Highlands Water System filed a complaint against the owner-operators of the system alleging in essence that they provide water service that does not meet the minimum standards of the Commission's General Order No. 103; that defendants respond very poorly to customers' complaints; that on one occasion customers had to replace a broken coupling on the pump discharge piping in order to assure themselves of continuous water service; that the electric controls for the

single source of supply on which customers are dependent are not protected either from rainfall or from vandalism; that there is time clock operation of the pump rather than pressure controls or telemetering equipment, either of which would be a more adequate means of operation; that the storage tank would overflow for a considerable period of time each day to the extent that the paved roadway below the tank has been seriously eroded giving evidence to the fact that considerable amounts of water have been wasted by poor operation of the facilities; that a rate increase was recently granted to defendants and that customers did not generally protest because it was assumed that service would continue to be provided under a flat rate schedule; that almost immediately upon receipt of permission granting the increase, defendants installed meters throughout the distribution system on all customers' services; that installation of meters will result in a drastic curtailment of water consumption and a corresponding decrease in power costs for defendants; and that the level of service provided, the installation of meters on a system for which flat rate revenues were designed, and the excessive water wastage with corresponding excessive purchased power costs, have resulted in revenues to the utility greater than intended by the Commission when it granted the rate increase request.

Complainants requested an order requiring defendants to correct the many service deficiencies in the Coarsegold Highlands Water System, and further requested the Commission to review the recently increased rates to determine their reasonableness in light of the allegations set forth in the complaint.

On January 12, 1976 the Commission received defendants' reply to the allegations made in the complaint. The response is summarized below:

a. Defendants have greatly improved service since acquisition of the utility by deepening the well and installing a new pump. Defendants answer all calls regarding service.

b. When defendants purchased the system it did not meet the minimum standards of the Commission's General Order No. 103. Defendants are willing to upgrade the system if they can be reimbursed in a timely manner.

c. The electric controls are supposed to be waterproof. When outages occur, defendants can be contacted any time of day. There are six telephone numbers which can be called.

d. Revenues received under the flat rate schedule were not enough to pay for the power bill let alone other bills. The meters were installed on the services at the location of the shut-off valves.

e. There is no tremendous wastage of water and the change in power schedule has resulted in higher power costs. Any adjustment in rates might have to be upward.

Hearing was held at Oakhurst on January 21, 1976, before Examiner Gillanders. Testimony was received from complainants and defendants which elaborated upon the allegations of the complaint and the answer. The operator of the system, Mr. Forrester, also testified. A staff engineer testified and presented a written report (Exhibit 1) of the results of his investigation into the complaint.

Exhibit 1 shows that the utility serves 11 customers on a meter rate basis in an unincorporated area known as Coarsegold Highlands, located approximately three miles south of Coarsegold, Madera County.

The source of supply consists of one well equipped with a five-horsepower submersible deep-well turbine pump. Water is pumped from the well into and through the distribution system to a 30,000-gallon steel tank located at a high point just outside the distribution system.

The pump is operated by a time clock system which turns it on and off twice in a 24-hour period. The pump does not turn off automatically when the tank becomes full, but continues to operate until a prescribed time of day is reached. As a result, the tank overflows and the excess water flows down the roadway. The roadway[1/] below the tank is eroded.

The tank is located at such an elevation that when the tank is full, the maximum pressure possible for any of the existing customers is 42 psi. At the same time, the maximum pressure would be 19 psi at the home located at the highest elevation in the service area. As the water level in the tank falls during the day, these pressures become lower. At the time of the staff investigation the highest elevation home had a pressure of 12 psi. This is not only below the 40 psi required by current standards, but it is also below the 25 psi required previously by the Commission's General Order No. 103.

At the time of the staff's investigation on October 29, 1975, the leak mentioned in the complaint still had not been repaired. Inspection also revealed that the meters in a number of cases had been installed on the customers' premises rather than on the streets and rights-of-way. Apparently, the service to each lot had a shutoff valve which had previously been installed by the utility and the meters were installed on the customers' side of these valves.

The electric controls for the pump are unlocked and easily accessible. In fact, on some occasions the complainants have had to go to the pump location and turn on the pump manually in order to have any water at all. Additionally, it appears these facilities are not waterproofed.

1/ The evidence shows that this is a county road. The county knows of the condition but has done nothing about it.

According to defendants' 1974 Annual Report, the distribution system consists of 800 feet of pipe of 2 inches or less in diameter and 3,560 feet of 6-inch diameter pipe. The 2-inch pipe apparently is the pipe that runs from the well to the distribution system.

Decision No. 84904 granted authority to defendants to purchase all the corporate stock of Indian Wells Water Company. The Indian Wells facilities extend to within a mile of the Coarsegold Highlands facilities. If defendants exercise their authority to purchase the stock it is possible that some day the two systems may be interconnected. This would eliminate the low pressure problems and at the same time provide both systems with more than one source of supply.

Defendants' 1974 Annual Report was filed for the period March 26, 1974 to the end of the year inasmuch as they purchased the system during the year. The predecessor owners filed an annual report to cover the period from the beginning of 1974 to and including March 25, 1974. A combination of these two reports reflecting a full year's operation indicates that gross revenues during that year amounted to $445. In addition, approximately $183 was spent for out-of-pocket items such as purchased power and office supplies and an additional $160 for ad valorem taxes. The depreciation expense is shown as $658 and was supposedly calculated at 3 percent on a depreciable plant total of $26,500. However, this rate, when applied, should result in an accrual of $795.

Defendants have indicated that they do not intend to improve the facilities unless the funds are generated through revenues. Most of the improvements completed by defendants, other than deepening of the well, installation of a new pump and installation of meters, have been projects which require little in the way of funds and consist primarily of manpower. The defendants provide their own manpower during hours they are not working on other jobs or projects.

The pump and well have not yet been paid for in full. Full 3/4-inch meters were installed on all services.

The increase authorized by the Commission was granted with the thought that customers would continue to be provided with flat rate service. Accordingly, the rates were determined by estimating expenses and services related to a flat rate service system, including power costs. However, even at increased rates, a loss was expected to result. When defendants installed meters the water consumption immediately decreased. Even with decreased consumption and disallowance of power costs for water pumped through the overflow of the tank, defendants will still face a loss; however, out-of-pocket costs will be covered.

A summary of earnings for the year 1976 estimated is shown below:

Summary of Earnings

Item	1976 Estimated
Operating Revenues	$ 1,580
Operating Expenses	
Purchased Power	180
Oper. & Maint. - Employee Labor	180
Oper. & Maint. - Materials	30
Oper. & Maint. - Contract	80
Office Salaries	130
Management Salaries	60
Office Supplies & Expense	40
Insurance Expense	10
General Expense	30
Vehicle Expense	110
Rental Allowance	30
Subtotal	880
Depreciation Expense	820
Taxes Other Than on Income	150
Income Taxes	-
Total Deductions	1,850
Net Revenue	(270)
Average Depreciated Rate Base	
Utility Plant	28,450
Working Cash Allowance	100
Materials and Supplies	100
Depreciation Reserve	(7,200)
Rate Base	21,450
Rate of Return	Loss

(Red Figure)

As a result of his study, the staff engineer concluded that:

1. Defendants provide deficient service to customers in that they do not respond promptly to customers' complaints, do not make repairs in a timely fashion, and do not maintain operating pressures required by the Commission's General Order No. 103.

2. The electric controls for defendants' pump are not protected from vandalism which could result in extended water outages.

3. Pump operation is controlled by a time clock and when the storage tank becomes full this results in water wasted through the tank overflow.[2/] The paved road below the tank has become eroded because of this overflowing method of operation.

4. When the defendants installed meters on the customer's facilities some of them were installed on the customers' premises rather than in roads or rights-of-way. In most instances little or no damage occurred.

5. At the time the Commission granted the recent rate increase customers were provided with flat rate water service. The installation of meters temporarily resulted in greater revenues than were anticipated by the Commission, but water consumption was curtailed. Defendants are not expected to realize a profit even at the increased rates for meter rate service.

6. Water wasted through a constantly overflowing tank results in excessive power consumption, but since the rates were not designed to reflect a profit, the customers are not paying for the power consumption connected with this wastage.

2/ Mr. Smyth testified this was done on purpose in order to maintain some pressure at the highest home. If not done this way, it would cost $3,000 for liquid level controls - a sum he did not have.

The staff engineer recommended that:

1. Within ten days after the effective date of the order in this proceeding, defendants should install adequate protection for the electric controls at the pump site and inform the Commission in writing of the manner in which this has been accomplished.

2. Within thirty days after the effective date of the order in this proceeding, defendants should change the electric controls for pump operation from a time clock to a more adequate type of control and should inform the Commission in writing within ten days thereafter.

3. The presently effective rates should not be adjusted at the present time.

The testimony of Mr. Forrester revealed that he had assumed control of the water system on December 1, 1975, and that he and the defendants had reached an agreement for defendants to sell the system to him. He testified that when the sale was completed he would install pressure controls to regulate the level of water in the tank and make repairs as required. He further testified that he would adopt the existing tariff and was willing to continue the existing rates for a reasonable period of time as he expected future growth would make the system more profitable than at present.

On February 9, 1976 Joseph C. Smyth and Vic Kleiwer (sellers) and Linton E. and Eleanor Forrester (purchasers) filed Application No. 56265 requesting an order authorizing the sale and transfer of the water system known as Coarsegold Highlands Water System in accordance with an agreement entered into on February 5, 1976. A copy of the agreement is attached to the application as Exhibit 4.

Findings

1. Defendants have owned Coarsegold Highlands Water System since March 26, 1974.

2. Operation of the system has produced no net revenue.

3. Service is deficient.

4. Defendants desire to sell the system as they do not wish to spend any of their own funds on the system.

5. Purchasers are husband and wife who have operated the neighboring water system of Hillview Estates Water Company, which includes Goldside Estates water system and Sunnydale water system, for many years.

6. Purchasers are experienced in the operation of public utility water systems.

7. Purchasers intend to acquire the Coarsegold Highlands Water System and operate it in combination with other water systems for efficiency of operation and maintenance thereof.

8. Purchasers are familiar with existing water rates and tariffs of the utility and have agreed to charge customers in accordance with existing tariffs approved by the Public Utilities Commission.

9. Purchasers have agreed to install necessary liquid level controls.

10. The record in this proceeding clearly establishes that the transfer of the properties and public utility operating rights of sellers to purchasers would not be adverse to the public interest and that purchasers have the capability, including financial ability, to continue the operations of such properties and operating rights.

11. We find with reasonable certainty that the project involved in this proceeding will not have a significant effect on the environment.

12. The sale and transfer of the property as proposed in this proceeding would not be adverse to the public interest.

Conclusions

1. Because of the sale of the system Case No. 9991 should be dismissed.

2. Application No. 56265 should be granted in accordance with the order which follows.

The action taken herein shall not be construed as a finding of the value of the property authorized to be transferred.

O R D E R

IT IS ORDERED that:

1. Case No. 9991 is dismissed.

2. Joseph C. Smyth and Vic Kleiwer may sell and transfer to Linton E. Forrester and Eleanor Forrester the property referred to in this proceeding in accordance with the agreement attached to the application as Exhibit 4.

3. As a condition of this grant of authority, purchasers shall assume the public utility obligations of sellers within the area served by the water system being transferred and shall assume liability for refunds of all existing customer deposits and advances pertaining to the water system being transferred. Purchasers shall send notice of the assumption of liability for refunds to all customers affected.

4. Within ten days after completion of the transfer purchasers shall notify the Commission, in writing, of the date of completion and of the assumption of the obligations set forth in paragraph 2 of this order.

5. Purchasers shall either file a statement adopting the tariffs of sellers now on file with this Commission or refile under their own names those tariffs in accordance with the procedures prescribed by General Order No. 96-A. No increase in rates shall be made unless authorized by this Commission.

6. On or before the date of actual transfer, sellers shall deliver to purchasers, and the latter shall receive and preserve all records, memoranda, and papers pertaining to the construction and operation of the water system authorized to be transferred.

7. On or before the end of the third month after the date of actual transfer purchasers shall cause to be filed with the Commission, in such form as it may prescribe, an annual report covering the operations of sellers for the period commencing with the first day of the current year to and including the effective date of the transfer.

8. Upon compliance with all of the terms and conditions of this order, sellers shall be relieved of their public utility obligations in connection with the water system transferred.

9. Within ten days after completion of the transfer purchasers shall install protection for the electric controls at the pump site and inform the Commission in writing of the manner in which this has been accomplished.

10. Within thirty days after completion of the transfer purchasers shall change the electric controls for pump operation from time clock to liquid level controls and shall inform the Commission in writing of the installation within ten days thereafter.

11. Within sixty days after completion of the transfer purchasers shall file with the Commission a copy of each journal entry used to record the acquisition on its books of account.

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

Dated at San Francisco, California, this 12th day of MAY, 1976.

President

Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.