

ORIGINAL

Decision No. 85794

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)

ARROWHEAD UTILITY COMPANY,
a California corporation,

for authorization to increase rates
for water service.

Application No. 55895
(Filed August 26, 1975)

Gibson, Dunn, and Crutcher, by Raymond L. Curran, Attorney at Law, for Arrowhead Utility Company, applicant.
George M. Jamieson, for Lake Arrowhead Property Owners Association and Arrowhead Lake Association; R. H. Knaggs, for himself; and Thomas C. Stowe, for himself; interested parties.
Andrew Tokmakoff and Ichiro Nagao, for the Commission staff.

INTERIM OPINION

Arrowhead Utility Company (AUC) seeks authority to increase its general service metered rates^{1/} and its metered untreated water service rates approximately \$618,460 (192 percent) annually over its currently effective rates. Concurrently with the filing of this application, AUC filed a petition seeking authorization for an interim increase of approximately \$302,640 (92 percent) annually alleging that such interim rate relief is urgently needed to avoid serious and substantial damage to its financial stability.

1/ No increase is proposed for its public fire protection service.

AUC, a California corporation, renders public utility water service in and around the mountain communities of Lake Arrowhead and Cedar Glen in San Bernardino County. It obtains its total water supply from Lake Arrowhead through two intake facilities. The North Bay Intake and Pumping Plant boosts lake water to the Bernina Divide Filter Plant for treatment prior to entering the distribution system through the Bernina Divide Reservoir. Similarly, the Emerald Bay Intake and Pumping Plant boosts lake water to the Cedar Glen Filter Plant for treatment prior to being pumped directly into the distribution system. Because of the wide variation in elevations within the service area, 16 distinct pressure zones are required to adequately serve the area. These 16 pressure zones are comprised of eight gravity reservoir zones, seven hydropneumatic pressure zones, and one regulated pressure zone. The Lake Arrowhead Country Club (LACC) obtains metered untreated water from a tap of the raw water supply line near the Bernina Divide Filter Plant. The raw water follows the natural drainage course from this tap to Grass Valley Lake for storage and subsequent irrigation use by LACC. The number of average customers in AUC's service area for the recorded year 1974 was 3,641.

After notice, public hearing on the interim increase was held before Examiner Johnson on February 25 and 26, 1976 in San Bernardino and the interim portion of the matter was submitted. Testimony on the interim increase was presented on behalf of AUC by its president, by one of its vice presidents, and by a consulting engineer, and on behalf of the Commission staff by a utilities engineer and a financial examiner. Statements in opposition to the amount and distribution of the proposed increases were made by four public witnesses representing themselves and/or property owners associations. Other parties to the proceeding participated through cross-examination of the various witnesses.

Need For Interim Relief

AUC is a wholly owned subsidiary of Boise Cascade Home and Land Corporation (Boise Land) which in turn is a subsidiary of Boise Cascade Corporation (Boise Corporation). One of AUC's vice presidents testified that Boise Land acquired AUC in 1967 and operated it until 1971 when it was sold to Yuma Mesa Corporation (Yuma). Prior to the sale, Boise Land was allegedly preparing a rate increase application which was not filed because of the impending sale. In 1973 Yuma filed bankruptcy proceedings and Boise Land reacquired its interest in AUC as a part of the settlement of its creditor's claim in those bankruptcy proceedings. The testimony indicates that at that time it was difficult to determine the exact financial condition of AUC as Yuma had improperly maintained its records. To rectify this deficiency Boise Land assigned two of its own accountants to update and correct the records. According to the testimony, this work required several months to complete. At that time it was decided that it would be advisable to operate AUC for a full year under its new management before seeking rate relief, and it was, therefore, August 1975 before AUC was able to file this application.

The currently effective rates were authorized by Decision No. 68603 dated February 16, 1965 in Application No. 46253, as modified by Advice Letter No. 22, filed March 6, 1975, which authorized a 6.2 percent purchased power offset effective April 6, 1975. Those rates were intended to produce a rate of return of 5.1 percent for the test year 1965.

At the hearing on the interim portion of the rate application, AUC's witnesses presented exhibits and testimony showing that AUC experienced an operating loss of \$126,811 for the calendar year 1975; that lacking rate relief AUC would experience a negative cash flow of \$225,758 for the period January 1, 1976 through June 30, 1977; and that AUC's operating losses have increased from 1974 to 1975 and, lacking rate relief, will continue to increase through 1977. According to the testimony, Boise Land has in the past advanced funds to offset operating losses but will discontinue this practice for the future. Consequently, the record indicates that unless AUC obtains prompt rate relief it will be forced to curtail service, trim capital expenditures, and defer refunding advances and making tax and interest payments. AUC is aware of this Commission's unprecedented work load and realizes that because of this a final decision on this matter cannot possibly be issued for some time. AUC takes the position that under these circumstances, the only viable solution is the granting of interim rate relief. One of the Commission staff's financial examiners testified that his investigation revealed that AUC is operating at a loss and he, therefore, recommended that interim rate relief be granted.

Amount of Interim Rate Relief

AUC is requesting an interim increase of approximately \$302,640 to enable it to increase its operating revenues to a point where it will be able to operate without further losses pending the final decision on the matter. AUC's witnesses' testimony on the matter indicates that such an increase will not produce a rate of return in excess of the last authorized rate of return of 5.1 percent.

In addition, to facilitate the disposition of the interim increase, Boise Land has agreed to guarantee the refunding and repayment to AUC's customers of any amounts ultimately determined to have been improperly authorized and collected as a result of the interim request.

The Commission staff's financial examiner recommended an interim increase of \$135,782 (40.6 percent) to provide a rate of return of 3.0 percent which, in his opinion, will cover all operating expenses and provide a cushion of \$16,434 in net income. He testified that he limited his recommended interim increase to this amount because approximately 80 percent of AUC's recorded plant balances were unsubstantiated and that, if a substantial portion were to be eliminated from the plant accounts and rate base, his recommended interim increase could result in a rate of return in excess of the last authorized rate of return. He further recommended that the Commission accept Boise Land's guarantee to refund overcollections as further protection to AUC's ratepayers.

The following tabulation sets forth AUC's recorded results of operation for the calendar year 1975 as presented into evidence by AUC and the results of operation for the 12 months ended November 30, 1975 as recorded, at the staff's recommended interim increase, and at AUC's requested interim increase as presented into evidence by the Commission staff.

Item	Commission Staff-12 Mos. ended 11-30-75:			
	AUC 1975 :recorded	Staff's : Recorded	AUC's : prop. incr.	AUC's : prop. incr.
Oper. Revenues	\$ 319,278	\$ 334,192	\$ 469,974	\$ 630,394
<u>Oper. Expenses</u>				
Pumping Exp.	68,512	69,713	69,713	69,713
Treatment Exp.	38,203	31,235	31,235	31,235
Trans. & Dist. Exp.	39,664	44,441	44,441	44,441
Customer Acct. Exp.	26,064	26,404	27,083	27,885
Admin. Exp.	49,267	50,356	50,356	50,356
Subtotal	\$ 221,710	\$ 222,149	\$ 222,828	\$ 223,630
Depreciation	\$ 105,805	\$ 106,423	\$ 106,423	\$ 106,423
Real Estate & Prop. Taxes	49,432	49,007	49,007	49,007
Income Taxes	-	-	6,140	82,479
Total Oper. Exp.	\$ 376,947	\$ 377,579	\$ 384,398	\$ 461,539
Net Oper. Income	\$ (57,669)	\$ (43,387)	\$ 85,576	\$ 168,855
Average Net Plant Investment or Rate Base	\$2,794,461	\$2,852,573	\$2,852,573	\$2,852,573
Rate of Return	-	-	3.0%	5.9%

(loss)

It is noted that the staff figures indicate a rate of return in excess of the last authorized rate of return had AUC's proposed interim rates been in effect for the twelve months ended November 30, 1975.

To further support the need for immediate interim relief AUC's president presented a cash flow projection for the period January 1, 1976 through June 30, 1977 assuming present rates, assuming the Commission staff's proposed interim rates in effect as of July 1, 1976, and assuming AUC's proposed rates in effect as of July 1, 1976. These projections resulted in a negative cash flow of \$225,758 at present rates, a negative cash flow of \$90,383 at the staff's proposed interim increase, and a positive cash flow of \$85,033 at AUC's proposed interim increase.

Such cash flow projections are a useful tool in the evaluation of a utility's financial condition but include such items as refunds of advances, interest payments, and the costs of capital additions not included as operating expenses in rate of return computations. Furthermore, as indicated by the staff's financial examiner under cross-examination, a positive cash flow would result from the application of the staff's recommended interim increase for the period July 1, 1976 through June 30, 1977. It is this witness's opinion that the negative cash flow of \$90,304 for the period January 1, 1976 through June 30, 1976 resulting from the inability to initiate an interim increase substantially prior to that date should be ignored in evaluating the adequacy of such an increase.

From the record it is obvious that AUC is presently operating at a substantial loss and emergency interim rate relief is warranted. The preceding tabulation demonstrates the widely divergent results that can be obtained from recorded data and tends to support the staff's recommendation that a rate of return less than the last authorized rate of return be granted for the interim increase. We will, therefore, adopt the staff's recommendation with respect to authorizing an interim increase sufficient to provide a rate of return of 3.0 percent but will apply it to the calendar year 1975 recorded results. The interim increase thus obtained computes to be \$147,731 or 46.3 percent. Under these conditions, the implementation of Boise Land's guarantee would appear unnecessary.

Rates

For the interim portion of the increase AUC proposes a 100 percent increase for general metered services, a 13 percent increase for metered untreated water service, and no increase for public fire protection service. The record shows that the basis for limiting the increase to LACC, which is presently owned by the Lake Arrowhead property owners, is that the increase in costs associated with this service are relatively less than for the other metered services. The Commission staff proposes the same 13 percent interim increase for the metered untreated water service and no increase for the public fire protection service, with the result that the major portion of the recommended 40.63 percent increase will have to be obtained from the general metered services. To achieve the general service increase the staff's recommended rate proposal was for a 26.7 percent increase in the minimum charge, a 62.7 percent increase for a bimonthly consumption of 50 Ccf, and an increase of 59.2 percent for a bimonthly consumption of 500 Ccf. In general, the bulk of the high consumption bill months occur for houses occupied during the summer months. Under these circumstances, to place the major portion of the increase in the tail blocks would result in the year-around occupant being assessed a proportionally greater percent of the increase than the resort home owner. Consequently we will, for the interim portion of this matter, adopt an across-the-board percentage increase pending our final determination of the most equitable rate structure. The following tabulation compares revenues at present rates with adopted rates for the 1975 test year:

Class	At Present: Rates	At Adopted : Interim Rates	Increase	
			Amount	Percent
Gen. metered service	\$293,261	\$440,089	\$146,828	50.1
Metered untreated water service	6,927	7,830	903	13.0
Public fire protection service	19,090	19,090	-	-
Total	\$319,278	\$467,009	\$147,731	46.3

Findings

1. Arrowhead Utility Company is presently operating at a loss.
2. AUC is in urgent need of emergency interim rate relief to permit it to operate at a profit rather than a loss but the proposed rates set forth in the petition for interim relief are excessive.
3. The 1975 recorded results previously discussed herein of operating revenues, operating expenses, and rate base provide a reasonable basis for the computation of the additional revenues required for interim relief.
4. A rate of return of 3.0 percent on the 1975 adopted rate base of \$2,794,461 is reasonable for the interim rate relief herein authorized.
5. The increases in rates and charges authorized herein are reasonable on an interim basis pending final determination of the matter; and the present rates and charges insofar as they differ from those prescribed herein, until final determination of the matter are unjust and unreasonable.

6. The authorized increase in rates is expected to provide increased revenues of approximately \$147,731 (46.3 percent) for AUC's customers as contrasted to the requested interim increase of \$302,640 (92.3 percent).

Conclusions

1. The petition for interim relief should be granted to the extent set forth in the order which follows.
2. The effective date of this order should be the date on which it is signed because there is an immediate need for rate relief.

INTERIM ORDER

IT IS ORDERED that after the effective date of this order, Arrowhead Utility Company is authorized to file the revised rate schedules attached to this order as Appendix A and concurrently to cancel and withdraw presently effective schedules for the general metered services and metered untreated water services. 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.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 11th
day of MAY, 1976.

William S. Sycamore Jr. President
Vernon L. Sturgeon
Leonard Roy
Robert Bateman Commissioners

I concur in part and
dissent in part. Finding
number four declaring
that 3% rate of return
is reasonable is patently
ridiculous

Vernon L. Sturgeon

APPENDIX A
Page 1 of 3

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service except untreated water service under Schedule No. 3M.

TERRITORY

Lake Arrowhead and vicinity, San Bernardino County.

RATES

		Per Meter Per <u>Bimonthly Period</u>	
Quantity Rates:			
First 800 cu.ft. or less	\$ 11.25	(I)	
Next 1,200 cu.ft., per 100 cu.ft.92		
Over 2,000 cu.ft., per 100 cu.ft.69		
Minimum Charge:			
For 5/8 x 3/4-inch meter	\$ 11.25		
For 3/4-inch meter	15.00		
For 1-inch meter	22.00		
For 1-1/2-inch meter	36.00		
For 2-inch meter	52.00		
For 3-inch meter	88.00		
For 4-inch meter	144.00		
For 6-inch meter	280.00	(I)	

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

(Continued)

APPENDIX A
Page 2 of 3

Schedule No. 1

GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

Bills will be rendered bimonthly and service furnished only on a continuous basis with a minimum service period of twelve consecutive months. An annual minimum charge of \$67.50 for 5/8 x 3/4-inch meters (I) shall be billed on a bimonthly basis. Annual minimum charges for meter sizes larger than 5/8 x 3/4-inch will be at the rate of six times the bimonthly minimum rate applicable to the meter size involved.

APPENDIX A
Page 3 of 3

Schedule No. 3M

METERED UNTREATED WATER SERVICE

APPLICABILITY

Applicable to all metered, untreated water service.

TERRITORY

Lake Arrowhead and vicinity, San Bernardino County.

RATES

	<u>Per Year</u>	
First 100 acre-feet or less	\$6,000.00	(I)
Over 100 acre-feet, per acre-foot	60.00	(I)

SPECIAL CONDITIONS

1. Each customer when desiring service shall notify the Company at least 24 hours in advance, indicating the date and hour of commencement of such service.

2. A monthly charge of \$500.00, one-twelfth of the initial charge per year, will be due and payable on the first day of each month. Charges for deliveries in excess of 100 acre-feet during the yearly period will be monthly. (I)

3. Each customer serviced under this schedule will notify the Company, in writing, by March 15 of each year of his program for irrigating during the coming season.