

ORIGINAL

Decision 84 C9 021

SEP 6 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of DEAN W. KNIGHT & SONS, INCOR- )  
PORATED, for an increase in sewer )  
rates in Inyo County (Advice )  
Letter). )

Application 60485  
(Filed April 27, 1981;  
amended December 4, 1981)

Dean W. Knight and Denis Tillemans,  
for applicant.  
Dennis L. Myers, Attorney at Law, for  
Inyo County; and Paul Rudder, Attorney  
at Law, for Sierra House; protestants.  
Jasjit S. Sekhon, for the Commission staff.

FINAL OPINION

Summary

This decision makes the interim sewer service rates authorized by Decision (D.) 83-03-009 dated March 2, 1983 final. This service has been provided by Dean W. Knight & Sons, Incorporated (DWK) and its successor/affiliate, Rolling Green Utilities, Inc. (RGU),<sup>1/</sup> to a community in the vicinity of Big Pine. RGU also provides public utility water service and operates a gas distribution system within the tracts served by its sewer system. RGU has constructed sewage treatment plant improvements to meet the

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1/ On March 2, 1983 the Commission also issued D.83-03-004 authorizing DWK to sell its sewer system assets to RGU. Dean W. Knight and Olivia Knight owned all of the common stock of DWK and RGU at the time of the hearings in this application. The required fee for issuance of a note in payment for the transferred sewer utility properties has been paid. RGU is operating the system. However, RGU has neither filed a notice of adoption of DWK's tariff schedules nor filed those tariff schedules in its own name.

biological oxygen demand (BOD) and methylene blue active substance (MBAS) sewage discharge requirements established by the California Regional Quality Control Board, Lahontan Region (Lahontan). But RGU did not provide a study prepared by a registered civil engineer experienced in sanitary engineering to demonstrate that its treatment proposal is the most cost-effective means of meeting those discharge requirements and to evaluate alternate means of meeting the discharge standards. DWK was ordered to file the study with the Commission and to serve protestant, Sierra House,<sup>2/</sup> with a copy. Absent the study demonstrating that the facilities installed met the cost-effectiveness standard, we will consider the additional plant cost as contributions in aid of construction for ratemaking purposes unless RGU can demonstrate that an alternate approach is warranted.

RGU will be ordered to file a notice of adoption of DWK's sewer tariff schedules or to file sewer tariff schedules in its own name.

Background

The interim rates were subject to reduction if DWK did not complete sewage treatment plant improvements ordered in this decision within 120 days after the effective date of this decision. In D.83-03-009, we stated that DWK could request further rate relief in a separate application to recover the revenue requirement related to the cost of its treatment plant and incremental expenses. Improvements were needed because in the winter the sewage effluent discharged by DWK did not meet the standards

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<sup>2/</sup> Sierra House operated an Inyo County (County) sanatorium in Big Pine served by DWK. Its consulting civil engineer, Sam Gershon, was originally retained by County.

adopted by Lahontan. At that time, sewage was processed through a septic tank, discharging into a plastic-lined basin and then into as many as four unlined basin(s). During the winter lower air and water temperatures and a reduction in the amount of sunlight caused the bacteria breaking down sewage in the lined pond to function at a lower level of activity. Thus the retention period in the lined pond was insufficient to accomplish the breakdown of sewage to meet Lahontan's standards.

The operator of DWK's waste water facility also operated the similarly sized waste water facility owned by the Big Pine Community Service District.

In D.83-03-009, we discussed DWK's proposal and its rebuttal to the testimony of Gershon. We found that the disparities in DWK's estimates of the cost of installing and operating an aeration system were so large that further analysis would be required. Therefore, we ordered DWK to file its engineer's study and provided for comments from the Commission staff (staff) and Sierra House. At that time, DWK contended that it would be required to deepen and line its second and third sewage ponds to increase sewage retention time in the ponds and thus meet the BOD and MBAS discharge requirements established by Lahontan. But Gershon testified that, based on his experience in the sewage and waste water fields, DWK's treatment proposal was not cost-effective; DWK could meet Lahontan's BOD and MBAS requirements by installing and operating a small floating aeration pump to supplement bacterial action in the existing lined pond.

After the issuance of D.83-03-009, the staff contacted Mr. Knight and asked him to contact a Southern California Edison Company (SCE) representative in the nearby City of Bishop (RGU's service area is 10 to 15 miles from Bishop). The staff subsequently requested Knight to file his engineer's report.

In response, RGU sent the Commission a letter alleging that the cost of preparing the study would have been prohibitive; it knew of no "qualified engineer in our area" and bringing in an engineer from outside the area would be "out of the economical question"; its prior study, submitted in this proceeding, was adequate; the recommendation of Gershon to aerate RGU's sewage would be too expensive; the nearby Big Pine Community Service District abandoned its sewage aeration system because it was too expensive to operate and its maintenance costs were prohibitive. RGU further stated that its sewage ponds were located in SCE's service territory; it would be illegal for the City of Los Angeles Department of Water and Power (DWP) to furnish electricity in SCE's territory; and it was proceeding with the lining of its sewage ponds, as approved by Lahontan, at an estimated cost of \$40,000.

Subsequently RGU demonstrated to Lahontan that the deepened second pond did not require a lining because it was relatively impervious. RGU also requested Lahontan to allow it to modify their requirement for lining a third pond. RGU questioned the need for lining its third pond because all of its sewage was being contained in its existing two impervious ponds;<sup>3/</sup> and if at a later time there was a discharge from the second

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<sup>3/</sup> RGU also requested confirmation from Lahontan that it will not be required to obtain "grab" samples of effluent absent any discharge from its impervious ponds.

pond which met Lahontan's discharge requirements, there would be no need for a third impervious pond. However, RGU committed itself to making a third pond impervious, as a condition of sale, should it sell the sewer system. In the event that the third pond had to be made impervious, RGU requested Lahontan to consider RGU's use of alternate methods of lining its third pond; e.g. by substituting a clay lining or other low permeability soil for the tentatively approved 20-millimeter thick synthetic liner.

Under its Resolution 82-12, Lahontan will investigate possible revisions of its revised sewage discharge standards throughout its territory. As of July 10, 1984, Lahontan has not acted on RGU's request to revise the tentative waste discharge requirements, monitoring, and reporting program for RGU based on the modifications proposed by RGU.

In Exhibit 30, the staff states that RGU's response is based on the cost of the engineering study rather than the cost-effectiveness of the work undertaken by RGU; DWP has a 33,000-volt line within 100 feet of RGU's ponds; there is a "fringe agreement" entered into between DWP and SCE which would permit SCE to tap into DWP's line to serve isolated customers in SCE's service area; RGU did not contact any SCE representatives in Bishop concerning electrical service to its pond. The staff concludes that RGU's work apparently meets Lahontan's requirements, but it has made no showing of the cost-effectiveness of these improvements as a basis for further rate relief in this proceeding.

Discussion

RGU has apparently determined to ignore our discussion of the major errors in the analysis of its treatment plant operator and to ignore a staff suggestion to contact SCE about obtaining an electric supply for its pond. RGU substantially overestimated the cost of obtaining an electrical connection from SCE's system. The cost of obtaining power taken from DWP's line would be relatively minor. RGU reiterated its original estimate for installing and operating a 15-horsepower (hp) pump installation around the clock as opposed to installing a 1-2-hp pump which could be operated intermittently in cold weather to supplement bacterial action in its lined pond.

The power requirement for a small pump would have increased RGU's sewer operating expense by a small fraction of the \$7,800 estimated by RGU. Any RGU application for sewer rate relief related to the treatment pond improvements should be limited to the lesser of the revenue requirements for (a) using an aeration process obtaining power from DWP's line through SCE, or (b) inclusion of the ponds' improvement in rate base. Absent an acceptable study the cost of those improvements will be treated as a contribution in aid of construction.

Aeration may be a viable alternative to lining the third pond. If further treatment is required which could involve lining the third pond, RGU should submit three copies of a study, prepared by a registered civil engineer with sanitary engineering experience, to the Commission prior to commencing further work on its third pond. This study should evaluate the cost-effectiveness of alternatives to lining that pond.

We further note that RGU's contention that there is no qualified engineer in its area is incorrect. The permeability tests of the second pond were conducted for RGU by a civil/sanitary engineer whose office is in Bishop.

Since RGU is discharging sewage effluent meeting Lahontan's present requirements, this proceeding should be terminated. Since no revenue requirement for the treatment plant improvements constructed after issuance of D.83-03-009 was included in the rates authorized by that decision, there is no need to reduce those rates. The interim rates should be made final.

Findings of Fact

1. DWK filed the increased sewer rates authorized by D.83-03-009. Those rates were subject to reduction if treatment plant improvements ordered in this decision were not completed within 120 days after the effective date of this decision.

2. D.83-03-009 ordered DWK to file with the hydraulic branch of the staff an original and two copies of a study prepared by a registered civil engineer experienced in sanitary engineering to evaluate alternate means of meeting Lahontan's discharge standards in a cost-effective manner within 90 days after the effective date of that order. Copies of this study were to be served on all interested parties. The staff and Sierra House were given the opportunity to comment on DWK's study.

3. The study was not prepared.

4. Under D.83-03-004, the fee for issuing a note by RGU to purchase DWK's sewer assets has been paid. RGU is operating the sewer system. RGU has not filed a notice of adoption of DWK's rates.

5. RGU constructed sewer plant improvements and is meeting Lahontan's present discharge standards for BOD and MBAS. Neither DWK nor RGU has demonstrated that the facilities installed were cost-effective.

6. No revenue requirement for the treatment plant improvements was included in the rates authorized by D.83-03-009.

7. Lahontan may revise the waste discharge standards in its territory. It has not acted on RGU's proposed modifications of the waste discharge requirements, monitoring, and reporting program applicable to RGU's treatment.

Conclusions of Law

1. RGU is the successor, owner, and operator of the sewer system formerly owned and operated by DWK.

2. RGU should file a notice of adoption of DWK's tariff schedules or file those tariff schedules in its own name.

3. Since RGU has constructed sewage treatment plant improvements meeting Lahontan's present discharge requirements, there is no need for an order directing RGU or its predecessor, DWK, to construct improvements.

4. Since RGU has not demonstrated that these treatment plant improvements are cost-effective, we will consider the additional plant cost as contributions in aid of construction for ratemaking purposes in a future rate proceeding unless RGU can demonstrate that an alternate approach is warranted.

5. There is no need to reduce the existing interim rates. They should be made final.

6. If further treatment is required which could involve lining its third pond, RGU should submit three copies of a study to the Commission prepared by a registered civil engineer with



sanitary engineering experience evaluating the cost-effectiveness of alternatives to lining that pond. The work should be deferred pending staff review and recommendations concerning the study. The staff recommendations should be prepared within 60 days after receipt of the study.

FINAL ORDER

IT IS ORDERED that:

1. Rolling Green Utilities, Inc. (RGU) shall file a notice of adoption of Dean W. Knight & Sons, Incorporated's (DWK) tariff schedules or file those tariff schedules in its own name. This filing shall be made in compliance with General Order Series 96 within 10 days after the effective date of this order.

2. Since RGU has constructed sewage treatment plant improvements meeting the California Regional Quality Control Board, Lahontan Region's present discharge requirements, there is no need for an order directing RGU or its predecessor, DWK, to construct improvements.

3. The rates adopted in Decision (D.) 83-03-009 are final.

4. The treatment plant improvements installed since the issuance of D.83-03-009 shall be treated as contributions in aid of construction for ratemaking purposes absent RGU's showing that an alternate approach is warranted.

5. If further treatment is required which could involve lining its third pond, RGU shall submit three copies of a study to the Commission prepared by a registered civil engineer with sanitary engineering experience evaluating the cost-effectiveness of alternatives to lining that pond. The work shall be deferred pending Commission staff review and recommendations concerning the study. The Commission staff recommendations shall be prepared within 60 days after receipt of the study.

6. The application is granted as set forth above.

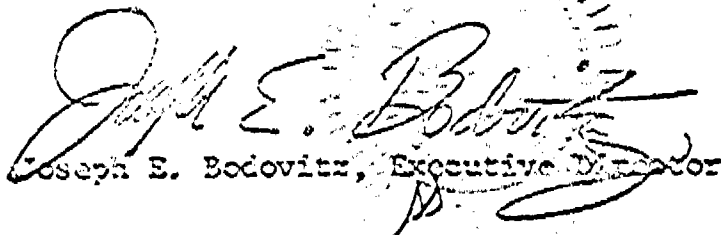
This order becomes effective 30 days from today.

Dated SEP 6 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.  
President

VICTOR CALVO  
PRISCILLA C. GREW  
DONALD VIAL  
WILLIAM T. BAGLEY  
Commissioners

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY.

  
Joseph E. Bodovitz, Executive Director

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