

OCT 27 1988

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ORIGINAL

Decision 88 10 056 OCT 26 1988

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
GRAEAGLE WATER COMPANY for )  
authority to increase water rates )  
and to change the charges for )  
turn-on and turn-offs of customer )  
services. (U-53-W) )

Application 87-11-001  
(Filed November 2, 1987)

Martin Abramson, for Graeagle Water  
Company, applicant.  
Arthur Andreas, Attorney at Law, for  
Feather River Park Resort Home Owners  
Association, and James T. McDonald,  
Attorney at Law, for himself,  
protestants.  
Lawrence O. Garcia, Attorney at Law, and  
R. Donald McCrea, for the Commission  
Advisory and Compliance Division.

### OPINION

Graeagle Water Company (applicant), a partnership of Harvey E. West, Jr. and members of his family, provides water service to 665 flat rate customers and one metered customer in the unincorporated community of Graeagle in Plumas county. Applicant requests authority to increase its flat rates for water service by approximately 15%, and to increase rates for its one metered customer, the US Forest Service, by approximately 16.3%. No rate increases are proposed for private fire protection service or public fire hydrant service.

Authority is also requested to increase charges for turning on service which has been disconnected for nonpayment of bills, and for temporarily turning off service for the convenience of customers. Current charges are \$10 during working hours and \$15 during off-hours. Applicant proposed to replace these charges with

a "summer" charge of \$45, applicable April through November, and a "winter" charge of \$70, applicable December through March.

Present rates were authorized by the Commission in Resolution W-3227, and have been in effect since February 7, 1985. Using a 1988 test year, applicant estimates that the proposed rate increases will increase its revenues by \$22,850, or 14.6%, and result in a 9.5% rate of return and a 9.5% return on equity.

### I. Procedural Background

Applicant states that it elected to file a formal application in lieu of an advice letter in order to support its proposed turn-on and turn-off charges and because it believed such a filing would be in its best interests.

Representatives of applicant and of the Water Utilities Branch (Branch) of the Commission Advisory and Compliance Division (CACD) conducted a public meeting in the community of Graeagle on November 23, 1987. Notice of the proposed rate increase and of the public meeting was mailed to each customer on November 18, 1987. Twenty-three members of the public attended. A duly noticed public hearing was subsequently held in San Francisco on April 19, 1988 before Administrative Law Judge (ALJ) Wetzell. The matter was taken under submission upon completion of the hearing.

On May 9, 1988 applicant filed a petition to set aside submission and reopen the proceeding for the purpose of taking additional evidence in support of its proposal, made at the hearing, to add one metered customer to its system. The petition showed that after the hearing, Smith Creek Mutual Water Company (SCMWC) formally requested that applicant provide water service to it through a 4" meter. In response, all parties to the proceeding agreed upon a settlement providing for such service, and entered into a stipulation concerning the issues raised by the petition. The stipulation was received by the ALJ as late-filed Exhibit 8 on

June 13, 1988, at which time the matter was again taken under submission. It is reproduced as Appendix D.

Comments on the ALJ's proposed decision were submitted by applicant and Branch, and, where appropriate, incorporated into this order. Applicant included material intended to update its showing. This is not proper subject matter for comments and has been disregarded.

## II. System Description

The source of water is Long Lake and Gray Eagle Creek. The water travels approximately 4 miles to a holding pond, where it enters a 24" main. It then goes to a series of 3 settling tanks and 6 screens. It is pre-chlorinated and sent to a 4 MGD dual media rapid sand filter. The filter plant is run on a gravity feed basis during winter months and operated with 20 hp pumps during summer months. Polymer is added to remove microorganisms. The water then goes to a 210,000 gallon steel storage tank (Tank No. 2) and into the distribution system on a gravity basis.

The distribution system consists of approximately 20 miles of mains varying in size from 24" to 1-1/2". The system serves nearly 600 single-family residences, 40 commercial connections, 8 irrigation connections, 8 private fire connections, and 72 public fire hydrants in a service area of 3.5 square miles. It is divided into three pressure zones, two of which require 5 hp booster pumps. One zone is served directly from Tank No. 2. The other zones are served from Tanks 1 and 3 which have, respectively, capacities of 84,000 and 210,000 gallons.

## III. Results of Operations

At the outset of the hearing applicant's consultant, Martin Abramson, stated that he had compared its results of operations study (Exhibit 2) with that of Branch (Exhibit 4), sponsored by utilities engineer Antoine Gamarra, and found that differences were for the most part insignificant. Applicant

therefore stipulated to Branch's results of operations analysis in all areas except the Branch's assigned land value for property leased by applicant from its affiliated land company and the recommended working cash allowance. Applicant further stated that it had reached agreement with the Branch on turn-on and turn-off charges, resulting in a stipulated recommendation of \$30 (summer) and \$45 (winter). With these exceptions, the consultant testified that applicant would accept all aspects of the Branch report. A summary of applicant's and Branch's results of operations analyses and recommendations follows. ✓

#### A. Revenues

Applicant and Branch based estimated consumption on 1986 recorded data. The estimated number of customers was based on 1986 recorded figures and an estimated growth factor of 18 new customers per year. The growth factor is a projection of 1982 through 1986 growth into 1987 and 1988. Branch and applicant concur in the following estimates of numbers of customers, by rate category, for test year 1988:

<u>Category</u>	<u>Number of Customers</u>
Metered	1
Flat Annual	
Residential	580
Commercial	35
Irrigation	1
Flat Seasonal	
Residential	38
Commercial	4
Irrigation	<u>7</u>
Total	666

A comparison of applicant's and Branch's estimates of operating revenues at present and proposed rates for test year 1988, excluding the 1-1/2% user fee, is shown below. Differences in flat and metered revenues are based on minor calculation errors discovered by Branch. Branch also notes that applicant used proposed turn-on and turn-off charges in computing other revenues at proposed rates.

Operating Revenues

<u>Item</u>	<u>Applicant</u>		<u>Branch</u>		<u>Applicant Exceeds Branch</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Flat	\$145,184	\$167,095	\$145,184	\$166,929	\$ 0	\$166
Metered	3,695	4,294	3,695	4,248	0	46
Fire Protection	5,039	5,039	5,039	5,039	0	0
Other	<u>370</u>	<u>370</u>	<u>185</u>	<u>370</u>	<u>185</u>	<u>0</u>
Total	\$154,288	\$176,798	\$154,103	\$176,586	\$185	\$212

**B. Expenses**

The following table compares applicant's and Branch's estimates of test year 1988 expenses:

<u>Expenses</u>			
<u>Item</u>	<u>Applicant</u>	<u>Branch</u>	<u>Applicant Exceeds Branch</u>
Purchased Power	\$ 4,550	\$ 4,240	\$ 310
Other Volume Related Expenses (Other Pumping Expense)	1,130	1,130	0
Materials	2,820	3,220	(400)
Contract Work	24,860	24,540	320
Transportation Expenses	3,500	1,080	2,420
Other Plant Maintenance	7,820	250	7,570
Office Salaries	15,140	15,140	0
Management Salaries	12,000	12,000	0
Office Supplies and Expense	810	810	0
Professional Services	4,920	4,920	0
Insurance	7,860	8,170	(310)
Regulatory Commission Expense	3,220	2,220	1,000
General Expenses	3,260	3,260	0
Affiliated Transactions	<u>0</u>	<u>2,540</u>	<u>(2,540)</u>
Total	\$91,890	\$83,520	\$ 8,370

(Negative Figure)

**1. Purchased Power**

Applicant's estimate is based on 1986 recorded expenses, increased by 5% per year. Branch used 1987 recorded purchased power adjusted for a change in power rates on August 1, 1987, and adjusted to reflect loss of a customer, Graeagle Meadows Golf Course, on January 1, 1987.

**2. Materials**

Applicant estimated 1988 materials expense by using the recorded 1986 figure and an escalation factor of 5% per year.

Branch averaged applicant's recorded materials expense for 1985, 1986, and 1987 and escalated the result considering growth and using non-labor escalation factors recommended by the Advisory Branch of CACD. Branch included the cost of propane gas used to heat the treatment plant building to prevent freezing of pipes. Applicant included this cost in its estimates of other plant maintenance expense.

3. Contract Work

Applicant noted that most of the plant maintenance is performed under contract. Since expenses fluctuate from year to year, applicant used the average of 5 years of recorded expenses and adjusted the result by 5% per year for growth and inflation. Branch's estimate reflects correction of an inadvertent computational error in applicant's figures.

4. Transportation Expense

Applicant considers \$3,500 to be a very conservative estimate of the cost of a company truck. This estimate is based on a previous study of the cost of leasing trucks from applicant's parent, Graeagle Land and Water Company (GLWC). Branch made a detailed investigation of the water system and service area, and determined reasonable usage of one owned truck, which is required to conduct utility business, to be 9,000 miles per year. Branch also allowed the use of a truck which is leased from GLWC to conduct utility business an estimated one-third of the time. Branch's estimated expense is included in expenses under "affiliated transactions." Branch notes that its depreciation and insurance expense estimates include vehicle-related expenses.

5. Other Plant Maintenance

Applicant estimated its 1988 other plant maintenance expense (OPME) by multiplying the average of 1984, 1985, 1986 recorded figures by escalation factors of 5% per year.

Recorded OPME figures include the cost of leasing approximately 6.8 acres from applicant's affiliate GLWC at an

annual cost of \$6,960. Branch did not allow any lease expenses in its estimated OPME. It estimated expenses for the leased land, which it found to be used primarily for rights of way to utility pipelines and for the filter plant, by treating it as if it were part of applicant's utility plant. Branch used the land's original cost of \$670 and a rate of return of 10.5%. Its estimate is included under the affiliated transactions expense category along with the truck expense described above. ✓

Applicant disagrees with Branch's use of the book value of \$670. That value is based on the purchase price of \$99 per acre when Harvey West, owner of the land and the water company, bought the land in 1958. The company was granted a certificate to operate a water system in 1961, by D.61440. Branch believes that because the system was devoted to public use at that time, relatively soon after the 1958 purchase, the purchase price should be used as the original cost of the land. The Branch witness testified that water plant facilities were in place at the time the system was certified. Applicant used a 1975 appraisal value of \$9,000 per acre, and a rate of return of 11%. The consultant testified that approximately 75% of the 6.8 acres is associated with the filter plant, which was constructed in 1981, 6 years after the appraisal was made. Most of the remaining land at issue is used for the 3 storage tanks, which were constructed in 1970, 1974, and 1977.

Applicant asserts that \$9,000 per acre is a conservative estimate of the average land value at the time these facilities were put into service, and that this value should be used for ratemaking purposes. It relies on the definition of original cost in the Uniform System of Accounts for Class B, C, and D Water Utilities (USOA), as revised by Decision (D.) 85-04-076:

"'Original cost' as applied to water plant means the cost of such property to the person or corporation first devoting it to public service."



Applicant included propane gas expense of \$821 for 1985. Branch deducted this amount from 1985 recorded OPME and included it in materials expense. Branch estimated miscellaneous OPME by averaging adjusted recorded amounts for the last 3 years and considering growth and applying non-labor escalation factors recommended by the Advisory Branch.

6. Insurance

Applicant estimated 1988 insurance expense by applying the 5% escalation factor to its 1987-88 insurance premium expense. Branch used a non-labor escalation factor recommended by the Advisory Branch and also allowed an additional expense for automobile insurance premiums for a new truck.

7. Regulatory Commission Expense

Applicant added the cost of the consultant's services in connection with this rate case and the cost of an attorney for representation at the hearing, and amortized the total over 3 years. Staff did not allow expenses for attorney's fees since small water companies do not usually require a lawyer, and since it believes that the consultant is well-qualified to provide necessary representation.

C. Taxes

Branch estimated 1988 property taxes by using applicant's 1987-88 tax bill. Its estimate is slightly less than applicant's due to a minor error by the latter. Since applicant is a partnership, it used the lowest tax rate for an individual (married, filing a joint return) in calculating income taxes. Branch applied its policy of using corporate tax rates for ratemaking purposes, and excluded the 1-1/2% user fee in its tax calculations. The following table shows a comparison of applicant's and Branch's calculations at present and proposed rates.

Income Tax Calculations

	<u>Applicant's Estimate</u>		<u>Branch's Estimate</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
	<sup>1</sup>	<sup>1</sup>		
Revenue	\$156,600	\$179,450	\$154,103	\$176,586
Total Expenses	94,200	94,540	83,520	83,520
Depreciation	20,920	20,920	20,920	20,920
Taxes Other Than Income	7,870	7,870	7,670	7,670
Interest	22,440	22,440	22,632	22,632
Taxable Income	11,170	33,680	19,361	41,844
State Income Tax	90	980	1,801	3,892
Subtotal	11,080	32,700	17,560	37,952
Federal Income Tax	1,660	5,290	2,634	5,693
Total Income Tax	1,750	6,270	4,435	9,585

<sup>1</sup> Includes 1-1/2% user fee.

D. Utility Plant

Applicant and Branch concur in the following estimates of utility plant for the 1988 test year.

<u>Item</u>	<u>Estimate</u>
Beginning-of-Year Plant	\$946,430
Additions	18,000
Retirements	2,000
End-of-Year Plant	962,430
Average Plant	954,430

E. Depreciation Expenses and Reserves

Applicant's and Branch's estimates for depreciation expense and average depreciation reserve for test year 1988 are shown below.

<u>Item</u>	<u>Estimate</u>
Balance Beginning-of-Year	\$222,880
Depreciation Expense	20,920
Amortization of Contributions	2,140
Net Retirements	(2,000)
Balance End-of-Year	243,940
Average Depreciation Reserve	233,410

(Negative figure)

Both applicant and Branch computed depreciation accrual by using the straight-line-remaining-life method, and both used a composite depreciation rate of 2.42%.

**F. Rate Base and Rate of Return**

Applicant and Branch adopted the same rate base estimates except for working cash. These are shown in the summary of earnings.

Applicant estimated a working cash allowance of \$4,430 by using the simplified method described in Standard Practice U-16. The consultant testified that this was based on use of standardized work papers furnished by staff for Class B, C, and D water utilities filing advice letter rate increases (Exhibit 3). The work papers provide a worksheet (Sheet 20 of 21) for computing working cash which is based on the Simplified Method provided in Standard Practice U-16. A footnote at the bottom of the worksheet provides that utilities may use the Detailed Method as described in Standard Practice U-16. The consultant believes that anything other than the simplified method does not make sense for a small company such as applicant, and that since the work papers are furnished to companies by the staff, the method provided therein should be acceptable.

Branch also used Standard Practice U-16 to estimate working cash allowance, but considered applicant's practice of billing every 6 months in advance. The Branch witness observed that the simplified method used by applicant is for monthly and bimonthly billing of flat and metered revenues. Standard Practice U-16 provides that for annual or seasonal billing, the working cash requirement should be determined by special study or professional judgement. Branch computed a negative working cash of \$29,300, and therefore believes no working cash allowance is necessary.

Applicant requested a 9.5% rate of return in its proposed summary of earnings. The Accounting and Financial Branch of CACD recommends a standard rate of return of 10.25% to 10.75% for 100%

equity-financed water utilities. Branch believes 10.5%, the midpoint of this range, is reasonable for applicant.

#### IV. Service

Branch conducted a field investigation of applicant's service area in November of 1987. Domestic water pressure was checked, and all pressures were found to be within ranges prescribed by General Order 103. The treatment facilities and other plant facilities were inspected and the State Department of Health Services was satisfied with the latest water tests.

At the November 23, 1987 public meeting held in Graeagle, several questions were asked and statements made about the proposed rate increases and the supporting justification. One group of people complained about a taste of chlorine in the water at times. Branch checked with the Department of Health Services, which determined that the water system had no water quality or health problems.

Branch observed that applicant does not possess or own all land, rights-of-way, or easements needed to access certain of its plant facilities. In order to eliminate possible future problems maintaining or replacing utility plant, Branch recommended that applicant record easements of land used for utility plant and transmission lines, and that copies of recorded easements be filed with the Commission.

#### V. Rates and Charges

Applicant stated in the application that the proposed rates were designed to produce a 15% increase to metered and flat rate customers, resulting in an overall revenue increase of 14.6%.

Consistent with the water rate design policy guidelines adopted in D.86-05-064, Branch recommended elimination of the

lifeline block and establishment of a one commodity block rate design.

Applicant made a detailed study of the cost of providing turn-on and turn-off service. Using estimated hourly costs of \$15 for an employee and \$15 for a truck and tools, applicant determined the costs to exceed \$48 in summer months and \$67 in winter months. The current \$10 charge is therefore considered inadequate. The proposed "summer" and "winter" charges of \$45 and \$70 is intended to more equitably apportion the cost of the service to the individuals using the service instead of all customers. Applicant proposed the following additions and changes to its Rule 11:

"A.3. A customer who requests discontinuance of service and at a later date requests restoration of service, will pay a charge of \$45.00 during the period April 1 thru November 30 and a charge of \$70.00 during the period December 1 thru March 31. Each payment will entitle the customer to one turn-on and one turn-off.

"C.1. Where service has been discontinued for violation of these rules or for nonpayment of bills, the utility may charge \$45.00 for reconnection of service during the period April 1 thru November 30 and \$70.00 during the period December 1 thru March 31."

Branch made several corrections to applicant's detailed study of turn-on and turn-off service costs. Based on these corrections, it found the amounts should be \$58 in the summer and \$52 in the winter. Branch made its own study using applicant's estimated times and assuming the equipment was owned by applicant and not leased from GLWC. It estimated costs to be \$29 for summer and \$32 for winter, or \$31 year-round. Branch's Exhibit 4, in reporting the results of the public meeting held in Graeagle, notes that the customers thought that cost-based increases in the turn-on and turn-off charges are acceptable and should be approved. Branch recommended the following rule:

"C.5. A customer who requests discontinuance of service and within four months requests restoration of service, will pay a charge of \$31.00. Each payment will entitle the customer to one turn-on and one turn-off."

Branch did not recommend any change in the reconnection charge for restoration of service which is disconnected for nonpayment of bills or violation of utility rules. The current charges of \$10 during regular working hours and \$15 during other hours are established pursuant to paragraph I 6f of GO 103.

#### VI. Additional Meter

Applicant's consultant stated that a small mutual water company adjacent to the service area had engaged in preliminary discussions with applicant about purchasing water at metered rates. By D.91741, dated May 6, 1980, applicant's authority to charge metered rates was vacated pending further order of the Commission. The consultant requested authority for applicant to establish metered rate service for the mutual company and, to accommodate the possibility that the mutual company would be served as a metered customer, to amend the rate schedules to show rates for 6" and 8" meters. He stated that 7 or 8 homes are served by the mutual.

Branch witness Donald McCrea, Project Manager for this application, testified in opposition to the request on the basis of the prohibition on metering established by D.91741. Issues raised in the proceeding leading to that decision have not been resolved. In particular, because the area is very cold, water is run continuously in the winter to prevent freezing of pipes. He recommended that the authorized meter rates be applicable only to the existing customer, the US Forest Service.

Attached to applicant's petition to set aside submission was a copy of a letter to applicant dated April 27, 1988 wherein SCMWC requested service through a 4" meter to the Goldridge

Subdivision "in accordance with the appropriate metered-rate schedule." According to the letter, the request is made to provide an assured supply of water which is superior in quality to that available from SCMWC's well. The parties' stipulation (Appendix D) provides that the agreement is limited to a single 4" meter to provide service to SCMWC.

## VII. Protestants

Arthur Andreas testified for the Feather River Park Resort Homeowners Association (FRP). He is the president of FRP, which is a community of approximately 35 individually owned cabins and a small 9 hole golf course. Cabins are rented out, and owners must pay rent to FRP to stay in their own cabins. FRP is operated as a resort, and is open from late May to early October. Occupancy of the cabins is not allowed and water service is turned off during the off season.

According to Andreas, applicant's rate increases since 1978 have totalled 122%, which has had a negative impact on FRP. Increases in utility rates have made it difficult for FRP to keep its rents down so that it remains affordable for families. He also believes that water rates for the golf course are too high, particularly in relation to the rates that were paid by Graeagle Meadows Golf Course when it was served by applicant prior to 1987. FRP's golf course rate is 1/2 of that which was paid by the larger Graeagle Meadows Golf Course, yet, according to Andreas, FRP's course is closer to 1/4 the size of the larger course.

FRP also believes an action taken by applicant to reclassify it from a seasonal resort operator to a "planned unit subdivision" for rating purposes, following the 1979 proceeding leading to D.91741, resulted in an unjustified increase in water costs to FRP. The cabins are now billed on an individual basis. Although the Plumas County Planning Commission designated FRP as a

planned unit subdivision, that action was a technicality which did not change the operations of FRP. FRP requested that it be returned to the former classification. Andreas testified that FRP's objection to the reclassification was informally brought to the attention of the Commission's Consumer Affairs Branch in 1986, but that the informal complaint was never satisfactorily resolved.

Andreas maintains that neither he nor other owners of FRP cabins received notification of the application when it was filed, nor did they receive notice of the hearing. FRP owners were not informed of earlier rate increase requests either. He believes that applicant's publishing of the notice of the hearing in the Portola Reporter was ineffective notification for a recreational area such as Graeagle. Portola "is a railroad town that is some 11 miles over the hill." Andreas learned of the hearing when staff member Gamarra discovered correspondence from him in a file and took the initiative to call Andreas and ask if he was still interested in the issues he had raised earlier. This occurred 3 or 4 weeks before the hearing. Andreas did state on cross-examination that FRP hires a manager who lives on the property year-round.

Protestant James McDonald requested that a decision be deferred to allow further hearings on the issues raised by FRP. Andreas also supported such a delay to allow submission of additional evidence on the relative sizes of the golf courses.

#### VIII. Discussion

We have carefully considered the results of operations analyses of both applicant and Branch in view of applicant's acceptance of Branch's summary of earnings estimates in all but two areas. We adopt the Branch's methods and estimates as reasonable. The adopted summary of earnings which appears in the following table is based on Branch's recommendations, including its recommended 10.5% rate of return.



SUMMARY OF EARNINGS  
GRAEAGLE WATER COMPANY

Item	Test Year 1988					
	Applicant		Branch		ADOPTED	
	Present	Proposed	Present	Proposed	Present	AUTHOR.
	Rates	Rates	Rates	Rates	Rates	Rates
OPERATING REVENUES	154288	176798	154103	176586	154103	176216 ✓
OPERATING EXPENSES						
Purchased Power	4550	4550	4240	4240	4240	4240
Other Volume Related Exp.	1130	1130	1130	1130	1130	1130
Materials	2820	2820	3220	3220	3220	3220
Contract Work	24860	24860	24540	24540	24540	24540
Transportation Expense	3500	3500	1080	1080	1080	1080
Other Plant Maint. Exp.	7820	7820	250	250	250	250
Office Salaries	15140	15140	15140	15140	15140	15140
Management Salary	12000	12000	12000	12000	12000	12000
Office Supplies & Exp.	810	810	810	810	810	810
Professional Services	4920	4920	4920	4920	4920	4920
Insurance Expense	7860	7860	8170	8170	8170	8170
Regulat. Com. Exp.	3220	3220	2220	2220	2220	2220
General Expense	3260	3260	3260	3260	3260	3260
Affiliated Transactions	0	0	2540	2540	2540	2540
TOTAL EXPENSES	\$91,890	\$91,890	\$83,520	\$83,520	\$83,520	\$83,520
Depreciation	20920	20920	20920	20920	20920	20920
Property Taxes	7870	7870	7670	7670	7670	7670
State Income Tax	90	980	1801	3892	1801	3857
Fed. Income Tax	1660	5290	2634	5693	2634	5643
TOTAL DEDUCTIONS	122430	126950	116545	121695	116545	121610
NET REVENUE	\$31,860	\$49,850	\$37,558	\$54,891	\$37,558	\$54,606
RATE BASE						
Average Plant	954430	954430	954430	954430	954430	954430
Average Depr. Res.	233410	233410	233410	233410	233410	233410
Net Plant	721020	721020	721020	721020	721020	721020
Less: Advances	116730	116730	116730	116730	116730	116730
Contributions	85350	85350	85350	85350	85350	85350
Plus: Working Cash	4430	4430	0	0	0	0
Mat'l & Supp.	1130	1130	1130	1130	1130	1130
RATE BASE	524500	524500	520070	520070	520070	520070
RATE OF RETURN	6.07%	9.50%	7.22%	10.55%	7.22%	10.50%

A. Land Value

We adopt Branch's original cost for the 6.8 acres of land used for utility plant. Even if \$9,000 per acre is a reasonable estimate of the land's market value at the time that the associated plant facilities were constructed, use of market value is not appropriate where the underlying land was owned, and continues to be owned, by applicant's nonutility affiliate. As pointed out by Branch, we have consistently held that for ratemaking purposes, a nonutility affiliate under common ownership or control with a regulated utility should not be entitled to greater returns on sales to the utility than the utility itself earns on its operations. Under these circumstances we consider the affiliate as part of the utility enterprise.

Applicant's reliance on the definition of original cost in the USOA does not persuade us to reach a different conclusion than the one reached by Branch. Applicant's witness admitted that the utility has received full value in rate base for the original costs of the tanks and the filter plant at the time of their installation.

As to the value of the underlying land, Branch's use of the 1958 purchase price of \$99 per acre for 1,373 acres was based on the 1961 issuance of a certificate to and commencement of utility service by the company. The record shows that plant facilities which included a diversion weir and a pipeline were in place at that time, although we note that neither applicant nor Branch was able to state with any precision the original extent of these plant facilities. Under the circumstances Branch drew a proper conclusion that the land was devoted to public service in 1961.

B. Working Cash

Branch's recommendation that no working cash be allowed in rate base is adopted. Applicant's objection to Branch's approach appears to be based on the inclusion of the simplified

method in the work papers furnished by Branch and on the fact that a detailed lead-lag study can be a burden on a small water company. Applicant did not claim that the Branch's study yielded an unreasonable result.

The fact that Branch furnishes standardized work papers to water companies filing advice letter rate increases which include a suggested method of computing working cash requirements does not prevent Branch from recommending, or us from adopting, other methods which produce a more reasonable result. As pointed out by the Branch witness, applicant's practice of billing every 6 months in advance renders inappropriate the method used by applicant under the terms of Standard Practice U-16.

C. Turn-on and Turn-off Charges

Institution of cost-based charges for turning off and turning on water service will fairly apportion the cost of providing the service among ratepayers. Applicant's proposed tariff rule is unclear in its reference to a "later date." The language suggested by Branch results in a clearer rule and will be adopted, with a modification to reflect the stipulated charges.

The stipulated charges of \$30 for summer and \$45 for winter are cost-based and will be adopted. Branch showed that the special study made by applicant was faulty and resulted in excessive estimates of the cost of turning off and turning on service. Branch's cost estimates, which are based on data obtained from applicant, are similar to the proposed summer rate. As noted by applicant's consultant, the data was obtained during a mild winter. Branch's estimates would therefore understate the average cost of the service in winter months. The additional \$15 for winter service is reasonable.

Applicant's related request to increase charges for reconnecting service which has been disconnected by the utility will be adopted with similar changes to reflect the stipulated charges. Paragraph I 11 of GO 103 provides for deviations from the

requirements of the GO when a rule results in undue hardship or expense to the utility. Based on the corrected cost study, deviation from the GO's requirement of a maximum \$10 charge is warranted in this case.

**D. Additional Metered Customer**

We reaffirm our order in D.91741 that applicant's authority to charge meter rates is vacated pending further order of the Commission. By this order, we will allow applicant to establish a metered service in accordance with the stipulation of the parties (Appendix D), including all of the conditions listed in it. This should help to provide the residential customers of SCMWC with an assured supply of quality water. Since the stipulation provides for a 4" meter, the recommendation to amend applicant's tariff by including service charges for 6" and 8" meters will not be adopted.

**E. FRP's Rates**

We considered the issue of FRP's golf course rates in relation to the Graeagle Meadows Golf Course rate in D.91741. We rejected FRP's contention that the historic 2 to 1 relationship of rates should be changed to 3 to 1. The only material fact that has changed is that Graeagle Meadows is no longer a customer of the utility. There is no evidence that FRP's golf course rate is excessive or out of line in comparison to any of the remaining customers of the utility.

The record shows that FRP's concerns about the proper rate classification of its rental cabins have never been fully resolved informally. In conjunction with the Consumer Affairs Branch, Branch should investigate applicant's rating and billing practices to ensure that the tariffs are being applied in a fair and consistent manner, and report on the results of the investigation as it applies to FRP.

**F. Notice**

We are concerned that ratepayers receive sufficient notice of rate increase applications and of hearings, as well as

information about effective participation in such proceedings. The record shows that in this case Branch provided applicant with a sample notice and directed applicant to distribute the notice to each customer. A copy of Branch's letter to applicant and the sample notice is included in the formal file for this proceeding, and it shows that the notice included a summary of the application, notice of the November 23 informal meeting in Graeagle, and information about the Public Advisor's Office.

Since more than 20 people subsequently appeared at the meeting, it is reasonable to presume that applicant provided notice as requested by staff and as required by the Rules of Practice and Procedure. Notice of the hearing, along with an additional summary of the application, was published in a newspaper of general circulation as required by our rules. There is no evidence to show that applicant acted improperly in providing notice, or that it failed to observe our notice requirements. We find no basis to defer a decision on this matter.

We recognize the special notice problems that may arise when the area served by a utility is a recreational or resort area, and ratepayers do not live in the area at all times. We note that staff also recognized this problem and took steps to notify FRP's president 3 or 4 weeks before the hearing. For proceedings such as this, it is appropriate for our staff as well as utilities to take such extra precautions to assure proper notification to all affected parties.

#### Findings of Fact

1. The estimates as to revenues and expenses set forth in the adopted summary of earnings, and the quantities shown in Appendix B upon which they are based, are reasonable.
2. Branch's computation of rate base of \$520,070 is reasonable.
3. Branch's determination of original cost of land which is leased from applicant's nonutility affiliate is reasonable.

4. Branch's method for determining working cash allowance is reasonable.

5. A rate of return of 10.5% is reasonable.

6. At presently authorized rates applicant would have a 7.42% rate of return on rate base for the test year 1988.

7. The increases in rates and charges authorized in Appendix A are just and reasonable, and present rates and charges, insofar as they are different from those prescribed, are for the future unjust and unreasonable.

8. A comparison of the present and adopted rates is shown in Appendix C.

9. The increase in annual revenue authorized by this decision is \$22,113, or 14.3%.

10. Applicant does not possess or own all land, rights-of-way, or easements needed to access certain of its plant facilities.

11. Applicant received a request to provide metered service to an additional customer after the hearing was held, and thereafter filed a petition to set aside submission.

12. Applicant requests authority to provide metered service to SCMWC only.

#### Conclusions of Law

1. The petition to set aside submission should be granted for the receipt of late-filed Exhibit 8, and applicant should be authorized to establish metered service for one additional customer.

2. A deviation from GO 103 should be authorized to allow establishment of the proposed reconnection charge.

3. Applicant should be ordered to record easements of land used for utility plant and transmission lines.

4. The application should be granted to the extent set forth in the following order.

5. The effective date of the order should be the date of signature because the revenue and expense projections were made for the test year 1988 and there is a need for additional revenues.

ORDER

IT IS ORDERED that:

1. After the effective date of this order, Graeagle Water Company is authorized to file the revised rate schedules attached to this order as Appendix A and to concurrently withdraw and cancel its present schedules for such service. Such filing shall comply with General Order (GO) Series 96. The effective date of the revised schedules shall be no earlier than five days after the date of filing.

2. The petition to set aside submission and reopen the proceeding is granted solely for the receipt of Exhibit 8, which is reproduced as Appendix D.

3. Graeagle Water Company is authorized to establish metered rate service through a 4" meter for Smith Creek Mutual Water Company in accordance with the conditions and limitations listed in Appendix D. In all other respects D.91741 remains in full force and effect.

4. Graeagle Water Company is authorized to deviate from the provisions of GO Series 103 to the extent necessary to establish the reconnection charges in Appendix A.

5. Graeagle Water Company shall record easements of land used for utility plant and transmission lines. Within 180 days after the effective date of this order, Graeagle Water Company shall submit an original and four copies of a report transmitting copies of the easements to the Commission Advisory and Compliance Division with a transmittal letter stating the proceeding and decision numbers. Parties need not be served with copies of the report unless they request them in writing. When service is made

on parties who request copies, Graeagle Water Company shall attach to its report a certificate showing service by mail upon all those requesting copies. The Director of the Commission Advisory and Compliance Division shall send the original and one copy of the report to the Docket Office for filing.

The application is granted as set forth above.

This order is effective today.

Dated OCT 26 1988, at San Francisco, California.

STANLEY W. HULETT  
President  
DONALD VIAL  
FREDERICK R. DUDA  
JOHN B. OHEANIAN  
Commissioners

Commissioner G. Mitchell Wilk  
being necessarily absent, did  
not participate.

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

*Victor Weiss*  
Victor Weiss, Executive Director



GENERAL METERED SERVICEAPPLICABILITY

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

TERRITORY

The unincorporated community of Graeagle, and vicinity located approximately 12 miles southwest of the city of Portola, Plumas County.

RATES

Per Meter Per Month  
Service Charge

## Service Charges:

For 5/8 x 3/4-inch meter.....	\$ 9.50	(I)
For 3/4-inch meter.....	10.45	
For 1-inch meter.....	14.25	
For 1-1/2-inch meter.....	19.00	
For 2-inch meter.....	25.60	
For 3-inch meter.....	47.45	
For 4-inch meter.....	64.50	

## Monthly Quantity Rates:

Per 100 cu.ft.....	.65	(I)
--------------------	-----	-----

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance.

ANNUAL GENERAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate water service furnished on an annual basis.

TERRITORY

The unincorporated community of Graeagle, and vicinity located approximately 12 miles southwest of the city of Portola, Plumas County.

RATES

	Per Service Per Month	
1. For a single-family residence, business establishment, or manager's quarters of a motel, or trailer park, including premises.....	\$ 19.00	(I)
For additional buildings on the same premises and served from the same service connection:		
(1) each residence, cabin, or trailer with housekeeping accommodations.....	7.95	
(2) each hotel or motel room with bathroom facilities only.....	4.00	
2. Graeagle Golf Course.....	527.75	
3. Feather River Park Golf Course...	263.90	(I)

SPECIAL CONDITIONS

1. The foregoing flat rates apply to service connection not larger than 3/4-inch in diameter, with the exception of the Golf Course.

## APPENDIX A

Page 3

Schedule No. 2S

SEASONAL GENERAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate water service furnished on a seasonal basis.

TERRITORY

The unincorporated community of Graeagle, and vicinity located approximately 12 miles southwest of the city of Portola, Plumas County.

RATES

	<u>Per Service Per Month</u>	
	<u>Summer Season March 15</u>	
	<u>Through November 14</u>	
1. For a single-family residence, business establishment, or managers quarters of a motel, or trailer park, including premises.....	\$ 19.00	(I)
For additional buildings on the same premises and served from the same service connection:		
(1) each residence, cabin, or trailer with housekeeping accommodations.....	7.95	
(2) each hotel or motel room with bathroom facilities only.....	4.00	
(3) each trailer facility with partial plumbing.....	2.80	(I)

SPECIAL CONDITIONS

1. The foregoing flat rates apply to service connection not larger than 3/4-inch in diameter.

APPENDIX A

Page 4

Schedule No. 6

SCHEDULES OF RATES ON LAND OWNED BY GRAEAGLE LAND AND WATER COMPANY

	<u>Per Service Per Year</u>	
Tennis Court:	One Hundred Fifty One Dollars and Ninety Cents (\$151.90) 3/4" Pipe—Seasonal	(2)
Old Dairy Building:	Two Hundred Twenty Seven Dollars and Eighty Five Cents (\$227.85) 3/4" Pipe—Annual	
Graeagle Driving Range:	Three Hundred Sixteen Dollars and Fifty Cents (\$316.50) 1-1/2" Pipe—Seasonal	
Community Park:	Four Hundred Thirty Eight Dollars and Eighty Five Cents (\$438.85) 2" Pipe—Seasonal	
Millpond Picnic Area	Four Hundred Thirty Eight Dollars and Eighty Five Cents (\$438.85) 2" Pipe—Seasonal	(C)
Baseball Diamond:	Seven Hundred Ninety Three Dollars and Thirty Five Cents (\$793.35) 4" Pipe—Seasonal	(1)

Rule No. 11

DISCONTINUANCE AND RESTORATION OF SERVICE (Continued)

- b. In order to protect itself against serious and unnecessary waste or misuse of water, the utility may meter any flat rate service and apply the regularly established meter rates where the customer continues to misuse or waste water beyond five days after the utility has given the customer written notice to remedy such practices.
4. For Unsafe Apparatus or Where Service is Detrimental or Damaging to the Utility or Its Customers

If an unsafe or hazardous condition is found to exist on the customer's premises, or if the use of water thereon by apparatus, appliances, equipment or otherwise is found to be detrimental or damaging to the utility or its customers, the service may be shut off without notice. The utility will notify the customer immediately of the reasons for the discontinuance and the corrective action to be taken by the customer before service can be restored.

5. For Fraudulent Use of Service

When the utility has discovered that a customer has obtained service by fraudulent means, or has diverted the water service for unauthorized use, the service to that customer may be discontinued without notice. The utility will not restore service to such customer until that customer has complied with all filed rules and reasonable requirements of the utility and the utility has been reimbursed for the full amount of the service rendered and the actual cost to the utility incurred by reason of the fraudulent use.

C. Restoration of Service

1. Reconnection Charge

Where service has been discontinued for violation of these rules or for nonpayment of bills, the utility may charge \$30.00 for reconnection of service during the period April 1 through November 30 and \$45.00 during the period December 1 through March 31.

(C)  
|  
(C)

APPENDIX A

Page 6

Rule No. 11

DISCONTINUANCE AND RESTORATION OF SERVICE (Continued)

2. To Be Made During Regular Working Hours

The utility will endeavor to make reconnections during regular working hours on the day of the request, if conditions permit, otherwise reconnections will be made on the regular working day following the day the request is made.

3. To Be Made at Other Than Regular Working Hours

When a customer has requested that the reconnection be made at other than regular working hours, the utility will reasonably endeavor to so make the reconnection if practicable under the circumstances.

4. Wrongful Discontinuance

A service wrongfully discontinued by the utility, must be restored without charge for the restoration to the customer within 24 hours.

5. A customer who requests discontinuance of service and within four months requests restoration of service, will pay a charge of \$30.00 during the period April 1 through November 30 and a charge of \$45.00 during the period December 1 through March 31. Each payment will entitle the customer to one turn-on and one turn-off.

(N)  
—  
(N)

D. Refusal to Serve

1. Conditions For Refusal

The utility may refuse to serve an applicant for service under the following conditions:

- a. If the applicant fails to comply with any of the rules as filed with the Public Utilities Commission.
- b. If the intended use of the service is of such a nature that it will be detrimental or injurious to existing customers.
- c. If, in the judgment of the utility, the applicant's installation for utilizing the service is unsafe or hazardous, or of such nature that satisfactory service cannot be rendered.
- d. Where service has been discontinued for fraudulent use, the utility will not serve an applicant until it has determined that all conditions of fraudulent use or practice has been corrected.

(END OF APPENDIX A)

## APPENDIX B

Adopted Quantities  
(1988 Test Year)

Net-to-Gross Multiplier 1.2971  
 Federal Tax Rate: 15.0%  
 State Tax Rate: 9.3%  
 Business License: 0.0%  
 Uncollectibles: 0.0%

Expenses - Test Year 1988

1. Purchase Power:	
Electric:	
Total cost (\$)	\$ 4,240
kwh Used	49,960
Eff. Sch. Date	8/87
Eff. Sch. Rate (\$/kwh)	.0625
2. Purchased Water	None
3. Pump Tax-Replenishment Tax	None
4. Payroll and Employee Benefits:	\$ 27,140
5. Ad Valorem Taxes	\$ 7,670
Assessed Value	\$ 760,750
Tax Rate	1.008%

Service Connections

1. Metered.....	1
2. Flat Rate	
Residential.....	618
Non-Residential.....	47
	-----
Total =	666

Adopted Income Tax Computations

	CCFT	FIT
1. Operating Revenues	\$ 176,216	\$ 176,216
2. Operating Expenses	83,520	83,520
3. Taxes Other Than Income	7,670	7,670
4. Depreciation	20,920	20,920
5. Interest Expense	22,632	22,632
6. CCFT (Line No. 9)	-	3,857
	-----	-----
7. Subtotal Deductions	134,742	138,599
8. State Taxable Revenue	41,474	
9. CCFT @ 9.3%	3,857	
10. Federal Taxable Income		37,617
11. FIT @ 15.0%		5,643
12. Total Income Tax		9,500

(END OF APPENDIX B)

## APPENDIX C

COMPARISON OF RATES

Comparison of typical monthly bills for 2 inch metered customer of various usage level at present and authorized rates for the year 1988.

Monthly Usage (Ccf)	At Present Rates	At Authorized Rates	Percent Increase
0	\$ 30.65	\$ 25.60	-16.5 %
3	31.76	27.55	-13.3
10	35.61	32.10	- 9.9
100	85.11	90.60	6.5
200	140.11	155.60	11.1
400	250.11	285.60	14.2
600	360.11	415.60	15.4

Flat Rate Service

	Present Rates	Author. Rates	Percent Increase
1. For a single-family residence, business establishment, or manager's quarters of a motel, or trailer park, including premises.....	\$ 16.55	\$ 19.00	14.8%
For additional buildings on the same premises and served from the same service connection:			
(1) each residence, cabin, or trailer with housekeeping accommodations.....	6.95	7.95	14.4
(2) each hotel or motel room with bathroom facilities only.....	3.50	4.00	14.3
2. Graeagle Golf Course.....	460.00	527.75	14.7
3. Feather River Park Golf Course.....	230.00	263.90	14.7

Seasonal Flat Rate

1. For a single-family residence, business establishment, or managers quarters of a motel, or trailer park, including premises.....	16.55	19.00	14.8
For additional buildings on the same premises and served from the same service connection:			
(1) each residence, cabin, or trailer with housekeeping accommodations.....	6.95	7.95	14.4
(2) each hotel or motel room with bathroom facilities only.....	3.50	4.00	14.3
(3) each trailer facility with partial plumbing.....	2.45	2.80	14.3
Tennis Court.....	132.40	151.90	14.7
Old Dairy Building.....	198.60	227.85	14.7
Graeagle Driving Range.....	275.85	316.50	14.7
Community Park.....	382.50	438.85	14.7
Millpond Picnic Area.....	382.50	438.85	14.7
Baseball Diamond.....	691.50	793.35	14.7

(END OF APPENDIX C)



## APPENDIX D

Exhibit 2

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application	)	
of GRAEAGLE WATER COMPANY for	)	
authority to change the charges for	)	Application No. 87-11-001
-turn-on and turn-offs of customer	)	(Filed May 9, 1988)
services.	)	
(U-53 W)	)	

## STIPULATION FOR SETTLEMENT

THE PARTIES TO THIS PROCEEDING now pending before the Public Utilities Commission of the State of California desiring to avoid the expense, inconvenience and uncertainty attendant upon further litigation caused by setting aside submission of this application, have agreed upon a settlement of an issue in dispute between them and desire to submit to the Commission this stipulation for said Commission's approval and adoption as its final disposition of that issue set forth herein.

NOW, THEREFORE, THE PARTIES DO STIPULATE AS FOLLOWS:

1. The Staff of the Public Utilities Commission, Arthur Andreas as a representative of the Feather River Park Resort Home Owners Association, and James T. McDonald representing himself as a customer of Graeagle Water Company withdraw their opposition to permitting Graeagle Water Company to install a single 4 inch meter to provide metered water service to Smith Creek Mutual Water Company. In all other respects the Staff, Andreas and McDonald in their representative capacities continue to object and oppose the prospective installation of meters on any other part of Graeagle Water Company's system or service area.

2. Graeagle Water Company declares that by its application herein it does not seek authority to install meters on any other part of its system or service area.


3. The parties hereto agree that this specific stipulation is not to be used as a precedent to justify the prospective installation of meters on any part of Graeagle Water Company's system or service area.

4. The parties enter into this stipulation and agreement freely and voluntarily.

5. It is understood and agreed that the terms herein are binding upon approval by the Public Utilities Commission.

Dated: June 10, 1988

  
LAWRENCE Q. GARCIA  
Staff Counsel

  
ARTHUR ANDREAS  
Feather River Resort  
Homeowners Association  
Protestant

  
MARTIN ABRAMSON  
Graeagle Water Company

  
JAMES T. McDONALD  
Protestant

(END OF APPENDIX D)

June 13, 1988, at which time the matter was again taken under submission. It is reproduced as Appendix D.

## II. System Description

The source of water is Long Lake and Gray Eagle Creek. The water travels approximately 4 miles to a holding pond, where it enters a 24" main. It then goes to a series of 3 settling tanks and 6 screens. It is pre-chlorinated and sent to a 4 MGD dual media rapid sand filter. The filter plant is run on a gravity feed basis during winter months and operated with 20 hp pumps during summer months. Polymer is added to remove microorganisms. The water then goes to a 210,000 gallon steel storage tank (Tank No. 2) and into the distribution system on a gravity basis.

The distribution system consists of approximately 20 miles of mains varying in size from 24" to 1-1/2". The system serves nearly 600 single-family residences, 40 commercial connections, 8 irrigation connections, 8 private fire connections, and 72 public fire hydrants in a service area of 3.5 square miles. It is divided into three pressure zones, two of which require 5 hp booster pumps. One zone is served directly from Tank No. 2. The other zones are served from Tanks 1 and 3 which have, respectively, capacities of 84,000 and 210,000 gallons.

## III. Results of Operations

At the outset of the hearing applicant's consultant, Martin Abramson, stated that he had compared its results of operations study (Exhibit 2) with that of Branch (Exhibit 4), sponsored by utilities engineer Antoine Gamarra, and found that differences were for the most part insignificant. Applicant therefore stipulated to Branch's results of operations analysis in all areas except the Branch's assigned land value for property

June 13, 1988, at which time the matter was again taken under submission. It is reproduced as Appendix D.

Comments on the ALJ's proposed decision were submitted by applicant and Branch, and, where appropriate, incorporated into this order.

## II. System Description

The source of water is Long Lake and Gray Eagle Creek. The water travels approximately 4 miles to a holding pond, where it enters a 24" main. It then goes to a series of 3 settling tanks and 6 screens. It is pre-chlorinated and sent to a 4 MGD dual media rapid sand filter. The filter plant is run on a gravity feed basis during winter months and operated with 20 hp pumps during summer months. Polymer is added to remove microorganisms. The water then goes to a 210,000 gallon steel storage tank (Tank No. 2) and into the distribution system on a gravity basis.

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leased by applicant from its affiliated land company and the recommended working cash allowance. Applicant further stated that it had reached agreement with the Branch on turn-on and turn-off charges, resulting in a stipulated recommendation of \$30 (summer) and \$45 (winter). With these exceptions, the consultant testified that applicant would accept all aspects of the Branch report. A summary of applicant's and Branch's results of operations analyses and recommendations follows.

#### A. Revenues

Applicant and Branch based estimated consumption on 1986 recorded data. The estimated number of customers was based on 1986 recorded figures and an estimated growth factor of 18 new customers per year. The growth factor is a projection of 1982 through 1986 growth into 1987 and 1988. Branch and applicant concur in the following estimates of numbers of customers, by rate category, for test year 1988:

<u>Category</u>	<u>Number of Customers</u>
Metered	1
Flat Annual	
Residential	580
Commercial	35
Irrigation	1
Flat Seasonal	
Residential	38
Commercial	4
Irrigation	7
Total	666

A comparison of applicant's and Branch's estimates of operating revenues at present and proposed rates for test year 1988, excluding the 1-1/2% user fee, is shown below. Differences in flat and metered revenues are based on minor calculation errors discovered by Branch. Branch also notes that applicant used proposed turn-on and turn-off charges in computing other revenues at proposed rates.

leased by applicant from its affiliated land company and the recommended working cash allowance. Applicant further stated that it had reached agreement with the Branch on turn-on and turn-off charges, resulting in a stipulated recommendation of \$30 (summer) and \$45 (winter). With these exceptions, the consultant testified that applicant would accept all aspects of the Branch report. A summary of applicant's and Branch's results of operations analyses and recommendations follows. Applicant included material intended to update its showing. This is not proper subject matter for comments and has been disregarded.

#### A. Revenues

Applicant and Branch based estimated consumption on 1986 recorded data. The estimated number of customers was based on 1986 recorded figures and an estimated growth factor of 18 new customers per year. The growth factor is a projection of 1982 through 1986 growth into 1987 and 1988. Branch and applicant concur in the following estimates of numbers of customers, by rate category, for test year 1988:

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Metered	1
Flat Annual	
Residential	580
Commercial	35
Irrigation	1
Flat Seasonal	
Residential	38
Commercial	4
Irrigation	7
Total	<u>666</u>

A comparison of applicant's and Branch's estimates of operating revenues at present and proposed rates for test year 1988, excluding the 1-1/2% user fee, is shown below. Differences in flat and metered revenues are based on minor calculation errors discovered by Branch. Branch also notes that applicant used proposed turn-on and turn-off charges in computing other revenues at proposed rates.

annual cost of \$6,960. Branch did not allow any lease expenses in its estimated OPME. It estimated expenses for the leased land, which is used primarily for rights of way to utility pipelines and for the filter plant, by treating it as if it were part of applicant's utility plant. Branch used the land's original cost of \$670 and a rate of return of 10.5%. Its estimate is included under the affiliated transactions expense category along with the truck expense described above.

Applicant disagrees with Branch's use of the book value of \$670. That value is based on the purchase price of \$99 per acre when Harvey West, owner of the land and the water company, bought the land in 1958. The company was granted a certificate to operate a water system in 1961, by D.61440. Branch believes that because the system was devoted to public use at that time, relatively soon after the 1958 purchase, the purchase price should be used as the original cost of the land. The Branch witness testified that water plant facilities were in place at the time the system was certified. Applicant used a 1975 appraisal value of \$9,000 per acre, and a rate of return of 11%. The consultant testified that approximately 75% of the 6.8 acres is associated with the filter plant, which was constructed in 1981, 6 years after the appraisal was made. Most of the remaining land at issue is used for the 3 storage tanks, which were constructed in 1970, 1974, and 1977.

Applicant asserts that \$9,000 per acre is a conservative estimate of the average land value at the time these facilities were put into service, and that this value should be used for ratemaking purposes. It relies on the definition of original cost in the Uniform System of Accounts for Class B, C, and D Water Utilities (USOA), as revised by Decision (D.) 85-04-076:

"'Original cost' as applied to water plant means the cost of such property to the person or corporation first devoting it to public service."

"C.5. A customer who requests discontinuance of service and within four months requests restoration of service, will pay a charge of \$31.00. Each payment will entitle the customer to one turn-on and one turn-off."

Branch did not recommend any change in the reconnection charge for restoration of service which is disconnected for nonpayment of bills or violation of utility rules. The current charges of \$10 during regular working hours and \$15 during other hours are established pursuant to paragraph I 6f of GO 103.

#### VI. Additional Meter

Applicant's consultant stated that a small mutual water company adjacent to the service area had engaged in preliminary discussions with applicant about purchasing water at metered rates. By D.91741, dated May 6, 1980, applicant's authority to charge metered rates was vacated pending further order of the Commission. The consultant requested authority for applicant to establish metered rate service for the mutual company and, to accomodate the possibility that the mutual company would be served as a metered customer, to amend the rate schedules to show rates for 6" and 8" meters. He stated that 7 or 8 homes are served by the mutual.

Branch witness Donald McCrea, Project Manager for this application, testified in opposition to the request on the basis of the prohibition on metering established by D.91741. Issues raised in the proceeding leading to that decision have not been resolved. In particular, because the area is very cold, water is run continuously in the winter to prevent freezing of pipes. He recommended that the authorized meter rates be applicable only to the existing customer, the US Forest Service.

Attached to applicant's petition to set aside submission was a copy of a letter to applicant dated April 27, 1988 wherein SCMWC requested service through a 4" meter to the Goldridge



SUMMARY OF EARNINGS  
GRAEAGLE WATER COMPANY

Item	Test Year 1988					
	Applicant		Branch		ADOPTED	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	Present Rates	AUTHOR. Rates
OPERATING REVENUES	154288	176798	154103	176586	155410	176216
OPERATING EXPENSES						
Purchased Power	4550	4550	4240	4240	4240	4240
Other Volume Related Exp.	1130	1130	1130	1130	1130	1130
Materials	2820	2820	3220	3220	3220	3220
Contract Work	24860	24860	24540	24540	24540	24540
Transportation Expense	3500	3500	1080	1080	1080	1080
Other Plant Maint. Exp.	7820	7820	250	250	250	250
Office Salaries	15140	15140	15140	15140	15140	15140
Management Salary	12000	12000	12000	12000	12000	12000
Office Supplies & Exp.	810	810	810	810	810	810
Professional Services	4920	4920	4920	4920	4920	4920
Insurance Expense	7860	7860	8170	8170	8170	8170
Regulat. Com. Exp.	3220	3220	2220	2220	2220	2220
General Expense	3260	3260	3260	3260	3260	3260
Affiliated Transactions	0	0	2540	2540	2540	2540
TOTAL EXPENSES	\$91,890	\$91,890	\$83,520	\$83,520	\$83,520	\$83,520
Depreciation	20920	20920	20920	20920	20920	20920
Property Taxes	7870	7870	7670	7670	7670	7670
State Income Tax	90	980	1801	3892	1922	3857
Fed. Income Tax	1660	5290	2634	5693	2812	5643
TOTAL DEDUCTIONS	122430	126950	116545	121695	116845	121610
NET REVENUE	\$31,860	\$49,850	\$37,558	\$54,891	\$38,565	\$54,606
RATE BASE						
Average Plant	954430	954430	954430	954430	954430	954430
Average Depr. Res.	233410	233410	233410	233410	233410	233410
Net Plant	721020	721020	721020	721020	721020	721020
Less: Advances	116730	116730	116730	116730	116730	116730
Contributions	85350	85350	85350	85350	85350	85350
Plus: Working Cash	4430	4430	0	0	0	0
Mat'l & Supp.	1130	1130	1130	1130	1130	1130
RATE BASE	524500	524500	520070	520070	520070	520070
RATE OF RETURN	6.07%	9.50%	7.22%	10.55%	7.42%	10.50%

requirements of the GO when a rule results in undue hardship or expense to the utility. Based on the corrected cost study, deviation from the GO's requirement of a maximum \$10 charge is warranted in this case.

**D. Additional Metered Customer**

We reaffirm our order in D.91741 that applicant's authority to charge meter rates is vacated pending further order of the Commission. By this order, we will allow applicant to establish a metered service in accordance with the stipulation of the parties (Appendix D), including all of the conditions listed in it. This should help to assure the residential customers of SCMWC an assured supply of quality water. Since the stipulation provides for a 4" meter, the recommendation to amend applicant's tariff by including service charges for 6" and 8" meters will not be adopted.

**E. FRP's Rates**

We considered the issue of FRP's golf course rates in relation to the Graeagle Meadows Golf Course rate in D.91741. We rejected FRP's contention that the historic 2 to 1 relationship of rates should be changed to 3 to 1. The only material fact that has changed is that Graeagle Meadows is no longer a customer of the utility. There is no evidence that FRP's golf course rate is excessive or out of line in comparison to any of the remaining customers of the utility.

The record shows that FRP's concerns about the proper rate classification of its rental cabins have never been fully resolved informally. In conjunction with the Consumer Affairs Branch, Branch should investigate applicant's rating and billing practices to ensure that the tariffs are being applied in a fair and consistent manner, and report on the results of the investigation as it applies to FRP.

**F. Notice**

We are concerned that ratepayers receive sufficient notice of rate increase applications and of hearings, as well as

information about effective participation in such proceedings. The record shows that in this case Branch provided applicant with a sample notice and directed applicant to distribute the notice to each customer. A copy of Branch's letter to applicant and the sample notice is included in the formal file for this proceeding, and it shows that the notice included a summary of the application, notice of the November 23 informal meeting in Graeagle, and information about the Public Advisor's Office.

Since more than 20 people subsequently appeared at the meeting, it is reasonable to presume that applicant provided notice as requested by staff and as required by the Rules of Practice and Procedure. Notice of the hearing, along with an additional summary of the application, was published in a newspaper of general circulation as required by our rules. There is no evidence to show that applicant acted improperly in providing notice, or that it failed to observe our notice requirements. We find no basis to defer a decision on this matter.

We recognize the special notice problems that may arise when the area served by a utility is a recreational or resort area, and ratepayers do not live in the area at all times. We note that staff also recognized this problem and took steps to notify FRP's president 3 or 4 weeks before the hearing. For proceedings such as this, it is appropriate for our staff as well as utilities to take such extra precautions to assure proper notification to all affected parties.

#### Findings of Fact

1. Branch's estimates as to revenues and expenses set forth in the adopted summary of earnings, and the quantities shown in Appendix B upon which they are based, are reasonable.

2. Branch's computation of rate base of \$520,070 is reasonable.

3. Branch's determination of original cost of land which is leased from applicant's nonutility affiliate is reasonable.

4. Branch's method for determining working cash allowance is reasonable.

5. A rate of return of 10.5% is reasonable.

6. At presently authorized rates applicant would have a 7.42% rate of return on rate base for the test year 1988.

7. The increases in rates and charges authorized in Appendix A are just and reasonable, and present rates and charges, insofar as they are different from those prescribed, are for the future unjust and unreasonable.

8. A comparison of the present and adopted rates is shown in Appendix C.

9. The increase in annual revenue authorized by this decision is \$20,806, or 13.4%.

10. Applicant does not possess or own all land, rights-of-way, or easements needed to access certain of its plant facilities.

11. Applicant received a request to provide metered service to an additional customer after the hearing was held, and thereafter filed a petition to set aside submission.

12. Applicant requests authority to provide metered service to SCMWC only.

#### Conclusions of Law

1. The petition to set aside submission should be granted for the receipt of late-filed Exhibit 8, and applicant should be authorized to establish metered service for one additional customer.

2. A deviation from GO 103 should be authorized to allow establishment of the proposed reconnection charge.

3. Applicant should be ordered to record easements of land used for utility plant and transmission lines.

4. The application should be granted to the extent set forth in the following order.

APPENDIX A  
Page 1  
Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

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

TERRITORY

The unincorporated community of Graeagle, and vicinity located approximately 12 miles southwest of the city of Portola, Plumas County.

RATES

	Per Meter	Per Month
	<u>Service Charge</u>	
Service Charges:		
For 5/8 x 3/4-inch meter.....	\$ 9.50	(I)
For 3/4-inch meter.....	10.45	
For 1-inch meter.....	14.25	
For 1-1/2-inch meter.....	19.00	
For 2-inch meter.....	25.60	
For 3-inch meter.....	47.45	
For 4-inch meter.....	64.50	
Monthly Quantity Rates:		
Per 100 cu.ft.....	.66	(I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance.

## APPENDIX A

Page 2

Schedule No. 2

ANNUAL GENERAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate water service furnished on an annual basis.

TERRITORY

The unincorporated community of Graeagle, and vicinity located approximately 12 miles southwest of the city of Portola, Plumas County.

RATES

	<u>Per Service Per Month</u>	
1. For a single-family residence, business establishment, or manager's quarters of a motel, or trailer park, including premises.....	\$ 18.80	(I)
For additional buildings on the same premises and served from the same service connection:		
(1) each residence, cabin, or trailer with housekeeping accommodations.....	7.90	
(2) each hotel or motel room with bathroom facilities only.....	4.00	
2. Graeagle Golf Course.....	523.15	
3. Feather River Park Golf Course...	261.60	(I)

SPECIAL CONDITIONS

1. The foregoing flat rates apply to service connection not larger than 3/4-inch in diameter, with the exception of the Golf Course.

APPENDIX A  
Page 3

Schedule No. 25

SEASONAL GENERAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate water service furnished on a seasonal basis.

TERRITORY

The unincorporated community of Graeagle, and vicinity located approximately 12 miles southwest of the city of Portola, Plumas County.

RATES

Per Service Per Month
Summer Season March 15 Through November 14

1. For a single-family residence, business establishment, or managers quarters of a motel, or trailer park, including premises.....

\$	18.80	(I)
----	-------	-----

For additional buildings on the same premises and served from the same service connection:

- (1) each residence, cabin, or trailer with housekeeping accommodations.....

7.90

- (2) each hotel or motel room with bathroom facilities only.....

4.00

- (3) each trailer facility with partial plumbing.....

2.80 (I)

SPECIAL CONDITIONS

1. The foregoing flat rates apply to service connection not larger than 3/4-inch in diameter, with the exception of the Golf Course.

APPENDIX A  
Page 4

## Schedule No. 6

## SCHEDULES OF RATES ON LAND OWNED BY GRAEAGLE LAND AND WATER COMPANY

	<u>Per Service Per Year</u>	
Tennis Court:	One Hundred Fifty Dollars and Sixty Cents (\$150.60) 3/4" Pipe—Seasonal	(T)
Old Dairy Building:	Two Hundred Twenty Five Dollars and Eighty Cents (\$225.80) 3/4" Pipe—Annual	
Graeagle Driving Range:	Three Hundred Thirteen Dollars and Seventy Cents (\$313.70) 1-1/2" Pipe—Seasonal	
Community Park:	Four Hundred Thirty Five Dollars and Zero Cents (\$435.00) 2" Pipe—Seasonal	
Meadow Irrigation:	Four Hundred Thirty Five Dollars and Zero Cents (\$435.00) 2" Pipe—Seasonal	
Baseball Diamond:	Seven Hundred Eighty Six Dollars and Forty Five Cents (\$786.45) 4" Pipe—Seasonal	(T)



## APPENDIX B

Adopted Quantities  
(1988 Test Year)

Net-to-Gross Multiplier 1.2971  
 Federal Tax Rate: 15.0%  
 State Tax Rate: 9.3%  
 Business License: 0.0%  
 Uncollectibles: 0.0%

Expenses - Test Year 1988

1. Purchase Power:	
Electric:	
Total cost (\$)	\$ 4,240
kwh Used	49,960
Eff. Sch. Date	8/87
Eff. Sch. Rate (\$/kwh)	.0625
2. Purchased Water	None
3. Pump Tax-Replenishment Tax	None
4. Payroll and Employee Benefits:	\$ 27,140
5. Ad Valorem Taxes	\$ 7,670
Assessed Value	\$ 760,750
Tax Rate	1.008%

Service Connections

1. Metered.....	2
2. Flat Rate	
Residential.....	618
Non-Residential.....	47
	-----
Total =	667

Adopted Income Tax Computations

	CCFT	FIT
1. Operating Revenues	\$ 176,216	\$ 176,216
2. Operating Expenses	83,520	83,520
3. Taxes Other Than Income	7,670	7,670
4. Depreciation	20,920	20,920
5. Interest Expense	22,632	22,632
6. CCFT (Line No. 9)	-	3,857
	-----	-----
7. Subtotal Deductions	134,742	138,599
8. State Taxable Revenue	41,474	
9. CCFT @ 9.3%	3,857	
10. Federal Taxable Income		37,617
11. FIT @ 15.0%		5,643
12. Total Income Tax		9,500

(END OF APPENDIX B)

## APPENDIX C

COMPARISON OF RATES

Comparison of typical monthly bills for 2 inch metered customer of various usage level at present and authorized rates for the year 1988.

Monthly Usage (Ccf)	At Present Rates	At Authorized Rates	Percent Increase
0	\$ 30.65	\$ 25.60	-16.5 %
3	31.76	27.58	-13.2
10	35.61	32.20	- 9.6
100	85.11	91.60	7.6
200	140.11	157.60	12.5
400	250.11	289.60	15.8
600	360.11	421.60	17.1

Flat Rate Service

	Present Rates	Author. Rates	Percent Increase
1. For a single-family residence, business establishment, or manager's quarters of a motel, or trailer park, including premises.....	\$ 16.55	\$ 18.80	13.6%
For additional buildings on the same premises and served from the same service connection:			
(1) each residence, cabin, or trailer with housekeeping accommodations.....	6.95	7.90	13.7
(2) each hotel or motel room with bathroom facilities only.....	3.50	4.00	14.3
2. Graeagle Golf Course.....	460.00	523.15	13.7
3. Feather River Park Golf Course.....	230.00	261.60	13.7

Seasonal Flat Rate

1. For a single-family residence, business establishment, or managers quarters of a motel, or trailer park, including premises.....	16.55	18.80	13.6
For additional buildings on the same premises and served from the same service connection:			
(1) each residence, cabin, or trailer with housekeeping accommodations.....	6.95	7.90	13.7
(2) each hotel or motel room with bathroom facilities only.....	3.50	4.00	14.3
(3) each trailer facility with partial plumbing.....	2.45	2.80	14.3
Tennis Court.....	132.40	150.60	13.7
Old Dairy Building.....	198.60	225.80	13.7
Graeagle Driving Range.....	275.85	313.70	13.7
Community Park.....	382.50	435.00	13.7
Meadow Irrigation.....	382.50	435.00	13.7
Baseball Diamond.....	691.50	786.45	13.7

(END OF APPENDIX C)