

Decision 89 12 021 DEC 6 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the APPLICATION of )  
TEHACHAPI MOUNTAIN WATER CO., a )  
Public Utility Water Corporation, )  
for immediate emergency rate relief )  
and for a general rate increase for )  
water service in the community of )  
Tehachapi (PUC Code Section 454). )

ORIGINAL

Application 88-03-068  
(Filed March 31, 1988)

Chester O. Newman, for Tehachapi Mountain  
Water Co., applicant.  
Izetta C. R. Jackson, Attorney at Law, and  
Willem R. Van Lier for the Commission  
Staff.

OPINION

Summary and Conclusion

This decision grants in part the request of the Tehachapi Mountain Water Co. (applicant), for a general increase in rates for 1989. It denies applicant's request to increase its reconnection charge, denies applicant's request to book unsupported costs for water rights, and denies applicant's request to reduce its depreciation reserve. The increase authorized is \$7,599 (100.3%) for 1989 is designed to yield a rate of return of 10.5%.

In addition we have authorized a billing surcharge of 14.04% for 60 days to offset estimated insurance costs, which is subject to refund. Applicant will be required to augment its showing on insurance costs to incorporate insurance costs in its rates, primarily in its service charges.

Background

This utility has a tangled procedural history and a long history of service problems and noncompliance with Commission decisions which bears recapping briefly so that the background of this order is clear. Helen and Julian Rastica filed Case (C.) 9073

seeking a finding that Tehachapi Mountain Water Service, among others, be declared a public utility water corporation serving an area including a 162.5 acre portion of a 320 acre farm originally owned by Charles E. Cook in which a water system was installed to serve 2 subdivisions with a total area of 85 acres subdivided into 38 lots and 7 adjacent parcels with an area of 77.5 acres. The subdivisions consist of 1 1/2 to 5 acre ranch type lots, some containing permanent residences. One customer with property outside of the service area extended his own 4-inch service line about a quarter of a mile to a 1 1/2 inch meter within the service area.

Decision (D.) 78094 dated December 15, 1970 declared Tehachapi Mountain Water Service to be a public utility water corporation and dismissed the complaint with respect to the other parties. D.81132 ordered that all references to Tehachapi Mountain Water Service be changed to applicant's name to conform with the company's articles of incorporation.

The utility was requested to: file a current system map, an original cost and depreciation reserve requirement study, and a depreciation rate study based on the straight line remaining life method. It was also required to secure the conveyance of certain used and useful utility plant from Tehachapi Land & Orchard Company and Charles E. Cook, to submit a letter stating that Well 3 had been connected at the system, to submit a plan for installing distribution system valves to meet the segmentation requirements of the Commission's General Order (GO) 103, and to obtain and submit a copy of a water supply permit. The utility was ordered not to extend its mains to serve additional customers or to serve additional customers off an undersized main.

From the beginning, adequate water supply was a problem. The wells supplying the system were located in the then overdrafted Brite groundwater basin. An adjudication of the Brite basin and of the adjacent overdrafted Cummings and Tehachapi basins was in

progress during the processing of C.9073. The water rights of 235 acre feet (AF) per year awarded by the Kern County Superior Court to Tehachapi Mountain Water Service were insufficient for ultimate development of the utility service area. However, a state water plan connection to provide Feather River water has been extended to serve those areas.

In D.89823, the utility water service plant and system was sold and transferred to Terrance Lee Jetton and Wayne E. Groom. At that time, the utility had failed to comply with Commission orders including the connection of Well No. 3 to the system; it had not filed a copy of a water supply permit or a revised rule for interruptable irrigation service with the Commission.

In D.91122 a transfer of the utility system from Terrance Lee Jetton and Wayne E. Groom to Wayne E. Groom and Evelyn F. Groom was authorized. Mr. Groom expended over \$5,000 to replace the pumping equipment in Well 2, but a failure of the casing in Well 2 made it necessary to replace the well casing and pumping equipment in that well and/or to place Well 3 in service. The utility was given a specific date to bring the system supply up to 250 gallons per minute (gpm) and was authorized to suspend or curtail irrigation service, pending an augmentation of the water supply with a Safe Drinking Water Bond Act (SDWBA) loan.

On February 10, 1981 the utility filed an application with the Department of Water Resources (DWR) for a SDWBA loan of \$60,000 to activate 2 wells, provide storage, install meters, and valves. DWR pointed out deficiencies in the loan application to the utility. Those deficiencies were not corrected. ✓

D.93037 denied the request for a further extension of time to bring its supply up to 250 gpm. A rate reduction was ordered if applicant did not act to increase its water supply. D.93318 denied the utility's petition for modification of the order reducing its rates since no new facts or arguments were produced by applicant.

Following expenditures of about \$8,000 to rehabilitate Well 2, the water supply increased from 30 gpm to 130 gpm from Wells 1 and 2. D.93318 then extended the date to increase supply to 250 gpm and extended the deadline for reducing rates if the utility failed to develop the supply until July 31, 1982. That deadline was not met, but reduced rates were not filed.

In November 1987 the 2 wells had a combined output ranging from 207 to 217 gpm, at different discharge heads. Well 3 was still not connected to the system.

#### Recent Service Problems

Applicant's owner Mr. Groom was terminally ill during 1984 and 1985. Mrs. Groom testified that during her husband's long illness she nursed and cared for her husband until he died. During that time she operated the system for the first time, paid the utility's bills but did not have time for company paper work or for follow-up on delinquent accounts. Some customers did not pay their bills, but called out plumbers without her permission to fix the system and ran up "tremendous bills" which she paid. Due to pressure from the Kern County Health Department (HD) she spent her own money to make timely repairs to the system because applicant's revenues were insufficient to pay those repair bills.

Further longstanding system and operating deficiencies were confirmed in applicant's Exhibit 10 which contains a copy of the utility's 1979 temporary water supply permit and 1986 and 1987 correspondence to Mrs. Groom describing violations of HD requirements. The correspondence states that the utility failed to: notify its customers of planned outages; have a designated liaison person to contact in emergency situations; repair mains in a timely manner; correct low pressure conditions and eliminate outages in upper portion of its service area, especially during the irrigation season; and keep one of its wells in operation. HD advised of possible penalties for failure to correct these

violations and reminded the utility of this Commission's moratorium on adding customers to its system.

Other problems include: lack of rights of way for some pipelines, an extended system outage caused by damage to a pump motor apparently caused by lightning, and the iron content in water from Well 1 exceeds HD's secondary drinking water standard. ✓

The testimony and statements of applicant's customers showed their continuing dissatisfaction with applicant's service. During periods of heavy demand, water pressure for some customers approaches zero; there are times when no water at all is available for prolonged periods. Customers have fruitlessly tried to contact Mrs. Groom, her daughter, or the system operator to restore service. Some of the customers have dug trenches to assist in making repairs. Applicant has refused customers' offers of assistance. Apparently on one occasion a customer reset system pressure controls at too high a level causing a costly blowout of the system.

Commission Advisory and Compliance Division Water Utilities Branch's (Branch) engineer testified that the system was old and in poor and neglected condition. One of the system's 2 pressure tanks has poor seals which can not withstand water pressures exceeding 40 pounds per square inch, the system lacks suitable valves to segment the system to facilitate repairs, and records of connected customers are poor. ✓

Tehachapi-Cummings County Water District's (District) engineer manager testified that District assisted applicant at the urging of the HD until an objection was raised to the expenditure of District funds to assist a private company. For an extended time District operated and repaired the system. It replaced and enlarged applicant's mains in the vicinity of its wells. District further testified that the system's mains were substandard, thin walled, and inadequately protected from corrosion. ✓

Possible System Sale

Exhibit 10 states that in 1986 Mrs. Groom indicated she would like to sell the water system. Customers discussed forming a mutual water company to take over and improve the operations. Customers also sought District's assistance in forming a Benefit Assessment District. While not precluding such action District would prefer to not provide retail residential water service. The following options were outlined for applicant's action:

1. Hiring someone to operate and manage the water system and to collect delinquent bills through small claims actions if necessary.
2. Sell the water company to another individual.
3. Turn the system over to local property owners.
4. Form a separate public district which would run the system and possibly purchase water from District. (State water plan irrigation water supplies obtained from District would need treatment for use as a potable supply.)

In evaluating those options at a HD hearing it was noted that applicant's ownership status was unclear because applicant had defaulted on making its loan payment for over one year. The parties holding the encumbrances have not indicated any intent to reacquire the system through default.

Hearings

After notice, hearings were held in Tehachapi and the matter was submitted on receipt of arguments and late-filed exhibits. Applicant's proposed Exhibit 5 is treated as its opening argument. A reply brief was submitted on behalf of Branch and a closing argument was submitted by applicant.

Testimony on behalf of applicant was presented by a consulting engineer and by Mrs. Groom. Branch's testimony was

presented by a Branch engineer and by District's engineer-manager. Five customers testified or made statements.

The Administrative Law Judge (ALJ) and the assigned Commissioner followed the recommendation of Branch's Program Manager not to act on applicant's request for an emergency increase of 100%, but to proceed with the case-in-chief in which applicant is seeking an overall increase of 348.3%. Branch's letter to the ALJ and to applicant questioned the need to rush through such a large rate increase without a showing that applicant could not continue to operate the system. The letter notes that applicant had waited for over seven years before seeking a rate increase. Branch believes the emergency increase was based on questionable increases in expenses including reimbursement for applicant's owner, proposed insurance, and purchased power expenses.

Summary of Earnings

Table 1 contains a summary of earnings comparison of applicant's operations for 1989 by applicant and Branch and the adopted results at present and at authorized rates. The following text describes the differences in estimates and the basis for the adopted and authorized amounts, shown in Table 1.

TABLE 1

TEHACHAPI MOUNTAIN WATER CO.  
SUMMARY OF EARNINGS  
(Test Year 1989)

Items	Present Rates			Authorized: 1989
	Applicant:	CACD	Adopted	
<u>Operating Revenue</u>	\$ 5,800	\$ 7,830	\$ 7,569	\$15,168
<u>Operating Expenses</u>				
Purchased Power	830	1,230	1,330	1,330
Employee Labor	2,000	1,080	1,670	1,670
Materials	860	700	700	700
Contract Work	2,000	2,000	2,000	2,000
Transportation	1,240	440	440	440
Office Salaries	3,900	1,350	1,350	1,350
Management Salaries	300	0	0	0
Uncollectibles	30	40	38	76
Rents	600	300	300	300
Office Supplies	320	215	320	320
Professional Serv.	1,350	900	1,000	1,000
Insurance	2,130	0	0 a/	0 a/
General	840	640	840	840
Subtotal	16,400	8,895	9,988	10,026
Depreciation	2,360	2,217	2,247	2,247
Taxes O/T Income	250	250	250	250
CCFT	200	600	600	600
FIT	0	0	0	307
Total Deductions	19,210	11,962	13,085	13,430
Net Revenue	(13,410)	( 4,132)	( 5,516)	1,738
Rate Base	49,210	16,531	16,556	16,556
Rate of Return	( 27.3%)	( 25.0%)	( 33.3%)	10.5%

(Negative)

a/ A temporary offset increase of 14.04% in rates to offset estimated insurance costs is authorized. (See Special Condition 3 of Appendix A.)



Operating Revenues

Applicant calculated 1989 meter sales based on 22 customers, service charges for 22 customers served through 5/8 x 3/4 inch meters and no flat rate customers. Applicant assumed that all of its customers would seek a change to minimum sized meters to reduce monthly service charges. Applicant reviewed its customer estimates based on an incomplete field investigation, showing in Exhibit 11 only 18 active customers on its system. A late-filed revision of Exhibit 11 identifies 20 customers, shows existing meter sizes, type of occupancy or use, acreage of parcels, customer status, and meter sizes following a partial downsizing of meters. Revised Exhibit 11 actually shows 23 names, indicating that the occupant of a rented home moved out owing 4 months of water bills and that another renter's service had been turned off owing payments for 3 years of service. The exhibit shows no meter for water service to a rented house owned by Mrs. Groom or for a new customer who had requested service. Applicant's 1988 annual report shows 20 active metered connections and 2 active flat rate connections.

Since there was no recorded consumption data for the years 1984 through 1986, both applicant and Branch used total annual 1987 recorded consumption divided by the 22 customers billed in 1987 for quantity rate revenue calculations. Branch's revenue estimate reflects the consumption of 24 customers based on the addition of a new customer to the system and includes billings to a rental property owned by Groom.

Branch service charge estimates are based on an existing and a new 3/4 inch meter, 17 existing and 1 new one-inch meters, and 4 existing 1 1/2 inch meters.

The numbers of customers on a system fluctuates from time to time. The 1989 revenue estimates adopted in this decision are based on water sales to 23 customers at the average consumption per customer used by applicant and Branch and the service charge

estimates of Branch for 1988 plus charges for a 5/8 x 3/4 inch meter to serve Groom's tenant.

Applicant's tariffs require billings for all water service provided. Applicant's metered tariffs contain quantity rates in hundreds of cubic feet but many of its meters register in gallons. Applicant's billings contain frequent and recurring errors. Applicant did not challenge customer testimony that it did not respond to customer requests for billing adjustments based on its incorrect billings; nor did it correct its errors. If applicant is unable to bill correctly, the billing function should be farmed out to another utility, a bank, or other provider of such services.

William J. B. Steele, an individual, testified on incorrect billings by applicant. A copy of some of his bills shows that they do not contain the information required on the billing forms shown in applicant's old Rule 5 or in its revised Rule 5. Applicant should incorporate the text of tariff sheets 130, 131, and 132 on appropriate forms issued by it and file revised tariff form sheets with the Commission.

Replacement of meter registers reading in gallons to meters registering in cubic feet may reduce the frequency of some billing errors. The rates adopted in this decision simplify the metered tariff by adopting a single quantity rate and phase out lifeline rates in conformity with the water rates design policy set forth in D.86-05-064. The adopted rates are shown in Appendix A of this decision.

Applicant claims it requires the services of a contractor at \$22.50 per hour for service turn-on and turn-off work and that the \$10 charge authorized in Rule 11.C of its tariffs is insufficient. Under Resolution W-3396 dated May 11, 1988 the Commission filed three revised uniform tariff rules for a number of smaller utilities, including applicant who failed to make required filings to conform with a Public Utilities Code change.

Applicant's revised Rule 11 did not contain a change in its reconnection charge. After notice, a disconnection may be made along with any other routine operation of the system. District's engineer manager testified that a routine meter change could be accomplished in less than a half hour. Shutting off service or if necessary shutting off and locking a service should take a few minutes. Applicant does not require the services of a contractor to provide notice to a customer or to cut off a service. Applicant's rationale for departing from the utility standard for reconnection charges is not convincing and will not be approved.

Operating Expenses

Purchased Power

Based on 1987 pump tests on applicant's wells, 1987 water sales were equal to approximately 12.5% of production. Applicant estimated purchased power expense of \$3,800 for 1988 on the assumption that it would receive funding to make a field survey to determine whether major leaks and/or unauthorized diversions were causing its excessive purchased power expense. For 1989 applicant's original purchased power estimate dropped to \$830 based on pumping costs to produce its water sales volume plus 15% for unaccounted for water and for operation of a booster pump. Branch's 1989 estimate is \$1,230 for annual purchased power expense using the same methodology as applicant. Branch notes that applicant's 1989 estimates inadvertently omits Southern California Edison Company's (SCE) customer charges.

Applicant now argues that its 1989 estimate should be increased to \$4,640 because emergency rate relief was not granted and a complete check of the system had not been made due to a lack of funds. Branch argues that applicant failed to amend its application to reflect these additional expenses which change its

request from a 348.3% increase to a 400% increase.<sup>1</sup> Public Utilities Code § 454 and Rule 23 of the Commission's Rules of Practice and Procedure require an amendment to the application and additional notice to seek further increases. In this proceeding we will follow Branch's methodology updated to reflect SCE's rates as of February 1, 1989 to provide water to 23 customers.

Notwithstanding our refusal to rubberstamp unreasonable rates, applicant is not without recourse in reducing its expenses. Applicant's purchased power expense can be reduced by locating large system leaks. Applicant can further increase revenues if it finds illegal diversions and back bills on an estimated basis for such diversions and, if necessary, takes legal action to collect on those bills. Applicant should look for standing water and water softened roadways when driving through the service area. It should use a pipe locator to determine whether unauthorized service lines are tapping its mains and determine the source of water to irrigated lands in and adjacent to its service area. It can look for large areas of green uncultivated vegetation. Those actions are starting points to locate the source of water losses on the system. Applicant should file a report with the Director of the Commission Advisory and Compliance Division (CACD) on the results of its completed survey within 90 days from the effective date of this decision.

Applicant has paid thousands of dollars for wasted water production because it will not survey its small system to reduce unaccounted for water on its system. Its ratepayers should not be saddled with those excessive costs. Furthermore, applicant should investigate the relative savings of power costs versus the cost of replacing its inefficient pumping equipment.

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<sup>1</sup> Granting an increase to offset those increased expense estimates would increase rates by about 440%.

The judgment in the Brite Basin adjudication allows for court approval of a stipulation permitting new pumpers to extract up to three AF of water per year from the basin. Only a limited area can be irrigated with that quantity of water. Applicant should ascertain whether an excessive amount of land is being irrigated compared to producers' water rights.

Applicant's revenues are adversely affected if more individuals in its service area produce their own water and applicant should not actively encourage this. Applicant should protect its system from contamination from individuals operating their own wells who are also connected to its system by requiring those customers to install an approved backflow protection device or to maintain an air gap separation of the two supplies.

Employee Labor

Applicant's estimate is \$2,000 per year, the Branch's estimate is \$1,080 for employee labor. Branch concurs with applicant's estimate of 7 1/2 hours per month for operating maintenance labor including 3 hours for routine maintenance, 2 hours for meter reading, and 2 1/2 hours for well maintenance.

The differences in estimates are due to the hourly compensation rate used, namely \$22.50 for applicant and \$11.50 for Branch. Applicant is paying that cost for a maintenance man engaged as an independent contractor. Applicant does not pay payroll taxes or fringe benefits for him. Branch's hourly wage estimate is based on a 1986 pay scale study of five southern California utilities, updated for labor escalation charges. Branch's study considers plant maintenance, meter reading, storekeeping, and utility person classifications. Applicant claims it can not engage a worker at the Branch recommended pay scale. It took two years to find the knowledgeable workman it uses.

The service area is a rural agricultural area. It requires use of a four wheel drive vehicle to traverse the service area when the ground is wet or covered with snow. Applicant

requires skilled part-time labor to carry out its maintenance functions. Applicant's estimate for maintenance work is reasonable.

Applicant should locate all meters and move or install meter boxes on the surface of stable ground at a standardized distance from edges of roadways. It is not productive to continually dig out meters from fields. Meter relocations would make it easier to identify service leaks or leaks in meter fittings. To further expedite meter reading, all registers should be standardized to read in cubic feet.

One of the customers furnished consumption readings billed by applicant which are relatively high during colder seasons and low during warmer seasons. The readings may be poorly estimated or poorly read. Applicant's estimate for meter readings is excessive. Applicant does not require the services of a contractor for meter reading. The total amount adopted for employee labor is \$1,680.

Materials

Branch used more up-to-date information than applicant in estimating the weighted average cost for materials. We adopt Branch's estimate.

Transportation Expense

Applicant allocated all out-of-pocket vehicle expense to itself for a truck used in utility operations and for other business or personal uses. Branch's estimate is based on a 20% allocation of such expenses to applicant. Both applicant and Branch estimates include the \$240 for monthly round trips between the service area and Bakersfield for supplies.

The Branch estimate is reasonable and will be adopted.

Office and Management Salaries

The estimates of office salaries are \$3,900 for applicant and \$1,350 for Branch. Their respective estimates for management salaries are \$300 and zero. Mrs. Groom does the billing. ✓

Applicant's estimate includes 8 hours per month for billing, 16 hours per month for bookkeeping, and 2 hours per month for handling complaints, all at \$12.50 per hour. Branch examined applicant's records and found that applicant's books are not kept in accordance with the Uniform System of Accounts for Class B, C, and D water utilities; the only recent book entries shown were for recorded revenue and purchased power. There were no records for 1984, 1985, and 1986. Applicant did not file required annual reports with the Commission for those years; its 1987 and 1988 annual reports were filed late and are incomplete. Branch reduced applicant's office salary estimate by 12 hours per month. Branch calculated office payroll at \$8 per hour.

Branch testified that the quality of work being performed by applicant's owner does not warrant compensation for management services. Applicant's owner has neglected company operations to the extent that she does not even know whether or not a property is served from the utility system or not.

Applicant proposes to change from bimonthly to monthly billing in light of the magnitude of increases requested. At the rates authorized in this decision that change is reasonable to lessen the impact of higher bills on applicant's customers. However, billing and posting for 23 bills per month and handling opening and closing applications and billings should not take 8 hours per month. Apparently applicant does not use a table for calculating quantity charges and the level of errors in its billings is not acceptable. As noted above applicant should consider contracting out billings and bookkeeping if she can not keep adequate records, including water production and water sales records. We find that the total level of expenses for office salaries and management salaries estimated by Branch are reasonable for the scope of work required by applicant. If applicant billed correctly, the level of customer billing complaints, and the associated expense would decline markedly.

Uncollectibles

Applicant and Branch both used a 0.5% level of revenues in computing uncollectible expense. It is reasonable to use that level of uncollectible expense for ratemaking purposes. It is probably low since applicant permitted one customer to fall three years in arrears before it turned off that service. Apparently, other customers are not paying their bills; in some cases because applicant does not know and has not pursued whether an individual(s) was obtaining water from its system. It is unreasonably discriminatory to permit some customers to avoid paying their bills. Permitting bill avoidance threatens applicant's survival. We will require applicant to submit the results of a survey of losses and unauthorized use of water from the system to the Director of CACD within 90 days from the effective date of this decision. Applicant should meter its sources of supply and record the quantity of water produced and the quantity of water sold on a monthly basis.

Rental Expense

Applicant's owner has designated an area in her barn on her Tehachapi residential property as a storage area. Branch found one meter stored in the barn. Branch proposes to reduce the \$600 expense requested by applicant for rental expense to \$300 based on the level of expense incurred by other small utilities.

The \$300 level is a reasonable rental allowance for the storage area and for the partial use of an office area in the residence of applicant's owner. ✓

Office Supplies

Since we concur in applicant going to a monthly billing cycle, we adopt applicant's estimates. The Branch estimate is based on continuation of the bimonthly billing cycle.



Professional Services

The Branch witness reduced applicant's annual estimates for monthly accounting services by \$450. He included his estimate for bookkeeping work under office salaries.

Applicant's operations do not require the monthly services of an accountant. The reasons for applicant's lack of records is unclear. If bills were paid by check rather than in cash, payments could be readily posted. Copies of lost checks could be obtained from applicant's bank. The needed bookkeeping could be done by applicant's owner or more rapidly by a service. The Branch professional services estimate is reasonable.

Insurance

Applicant has not carried insurance for its operations. On October 19, 1987, applicant obtained a letter quote of \$2,130 for liability insurance on its operations. The Branch witness believes that cost would impose an excessive burden (almost \$90/customer) on the few customers served by applicant. Furthermore, Branch questions whether applicant would acquire the insurance if the requested expense was allowed in this decision.

Applicant has not made a convincing showing of the reasonableness of its insurance quote. However, insurance is a legitimate and necessary business expense. Therefore, we will include a temporary insurance surcharge in rates of 14.04%, terminating in 60 days, and subject to refund, to recover insurance costs in rates.

We will require applicant to promptly obtain several additional insurance quotes and coverage limits from Bakersfield and Los Angeles insurance carriers and to contact the California and National Water Associations to obtain names of recommended insurance carriers, and to obtain bids from the recommended carriers as well. Those associations are familiar with insurance problems of water utilities. CACD will promptly review those bids and applicant's proposal; advise the Commission of the results of

its review; and, if necessary, assist applicant with an advice letter to eliminate the insurance surcharge and incorporate insurance costs in rates, primarily in service charge rates to recover that fixed expense. We will require submittal of proof of insurance in applicant's advice letter filing.

The surcharge collected for insurance purposes will be subject to partial refund if the annual insurance cost is less than \$2,130 and will be refunded if insurance is not obtained and kept in force. Applicant's policy shall provide for its carrier to notify the Director of CACD of the dates the insurance goes into effect and of its renewal or cancellation dates. If no insurance is in force, applicant's rates will be reduced to those shown in Appendix A, without a surcharge.

#### General Expense

We adopt applicant's estimate to include increasing costs for water testing and for HD permit fees. Branch based its estimates on applicant's recorded general expenses for 1987 after a review of general expenses incurred by three other small water companies and on its assessment that applicant had not justified the increase. Applicant cited higher costs in its testimony. State and local HDs are applying stricter testing standards on water utilities. Applicant's estimate is reasonable.

#### Depreciation Expense

Applicant's straight line remaining life accrual is based on its restatement of the reserve for depreciation, proposed utility plant additions, and on its remaining life estimates.

Branch began with the stated original cost of plant and reserve for depreciation at the time of the original transfer of the system; adjusted those amounts to reflect recorded plant additions and retirements, added depreciation accruals at the accrual rates last authorized by the Commission. Branch then prepared a straight line remaining life depreciation study and derived a 3.1% composite accrual rate.

Branch eliminated applicant's proposed additions of \$800 for telephone equipment and \$1,500 for office furniture from its calculations. Mrs. Groom informed Branch that she had not installed special telephone equipment; thus, it should not be considered in the adopted utility plant, depreciation expense, or depreciation reserve. Mrs. Groom reclassified the used and expensive desk in her home as utility property and added costs for a chair and a file cabinet.

We will increase Branch's depreciation expense estimate by depreciating \$300 for office furniture over ten years. We have adopted an estimate of 14 hours per month for office work by applicant. On a judgmental basis, 20% of the cost of office furniture should be allocated to applicant's operation.

#### Taxes

There is no issue with respect to taxes other than income. The amount of \$250 is adopted.

Income taxes are based on income and expenses and on the presently effective state and federal tax rates. Applicant understated the minimum 1989 California Corporation Franchise Tax which is \$600 not \$200.

#### Rate Base

##### Utility Plant

The amount of utility plant included in the adopted rate base increases Branch's estimate by \$300 for office furniture as discussed above.

We will disallow applicant's \$12,674 claim for water rights as set forth below.

On December 9, 1970, in Kern County Superior Court Case 97211, the Court determined the base water rights of the parties to extract water from the Brite Basin Area annually to prevent overdrafting in that basin. The stipulated judgement in the case shows that Tehachapi Mountain Land and Water Co., a California Corporation was awarded a base right to extract 235 AF

of ground water per year from the basin. Water rights were established based on users' beneficial use of water for five consecutive years after commencement of overdraft in the Brite Basin "as to which there has been no cessation of use by that party during any subsequent period of five consecutive years, both prior to the commencement of this action." The judgment based on District's evidence was not contested by any of the defendants, including Tehachapi Mountain Water Service who did not even appear at the trial. The natural annual safe yield of ground water extracted from the Brite Basin was then established at 500 AF. Pumped water may not be exported from the basin.

D.78094 dated December 15, 1970 declared Tehachapi Mountain Water Service to be a public utility subject to Commission jurisdiction. Ordering Paragraph 7 in D.78094 ordered the utility to:

"...file a report setting forth in detail a determination of the original cost, estimated if not known (historical cost appraisal) of the properties used and useful in providing water service and also the depreciation reserve requirement applicable to such properties. The report shall designate the items which are supported by vouchers or other like documentary evidence and which items are estimated, and shall show the basis upon which any such estimates were made."

D.89823 which authorized the sale of the utility to Jetton and Groom in 1979, stated that the filed annual report for 1977 showed that the original cost of the system was \$50,228 and the reserve for depreciation was \$32,902, resulting in a net book cost of \$17,326 excluding water rights. Thus the sale price of \$30,000 exceeded the original plant cost net of depreciation and contributions by \$12,674. D.89823 authorizing the sale states that:

"...the attorney for seller advised the Commission staff...that 235 AF of adjudicated water rights in the Brite Basin, having a

substantial value between \$160 and \$200 per AF, are included in the sale; absent the water rights applicant would have to enter into a pooling arrangement with District and pay District for each AF pumped; therefore the water rights are an asset to the utility."

But, D.89823 also states that:

"...purchasers understand that rates will be based on the depreciated original cost of the plant, excluding contributed plant, and not on the purchase price. This matter has been discussed by telephone by the Commission staff with Purchaser Groom."

The decision further states that:

"...[t]he authorization herein granted shall not be construed as a finding of the value of the value of the rights and properties herein authorized to be transferred nor as indicative of the amounts to be included in proceedings for the determination of just and reasonable rates."

Applicant relies on the latter quote as a basis for relitigating the issue of inclusion of water rights based on equating the difference between net depreciated utility plant and the purchase price for the system as the value of applicant's water rights.

That quote does not provide a basis for rearguing the issue absent any new facts; it permits the Commission to not recognize certain values for rate making purposes.

For rate making purposes, applicant made no showing that funds were expended in defending or obtaining water rights by applicant or its predecessors in interest. Groom and Jetton acquired all of the water company assets at a purchase price which exceeded depreciated plant costs by \$12,674. After the subsequent system transfer, Mr. Groom signed Advice Letter 5 for a 100% general rate increase. Applicant's rate base of \$12,023, in that

advice letter, does not reflect the proposed water rights valuation of \$12,674 which applicant seeks in this proceeding. ✓

Absent a showing of water rights in applicant's original appraisal or of subsequent costs, we will not allow inclusion of any water rights costs in rate base. The value of water rights in the Brite Basin is likely to be far lower than values in the other basins which are still overdrafted since water exports from the Brite basin are not permitted. Value comparisons for water rights do not serve to establish utility plant costs for rate making purposes absent a sale or lease of those rights. While we have assigned no dollar value for applicant's water rights, those rights are used and useful assets. They may not be sold, leased, or encumbered without authorization from the Commission.

The payment of \$12,674 in excess of depreciated assets is a water plant acquisition adjustment defined in Section 100.5 of the Uniform System of Accounts for Class D water utilities, in effect at the time of the sale of the system. That account description is now found in Account 114 in the Uniform System of Accounts for Class B, C, and D water utilities adopted by D.85-04-076 and made effective on January 1, 1985.

#### Reserve for Depreciation

Applicant's consultant testified that applicant's annual report contained no statement of the reserve for depreciation, its annual accrual was not earned. Therefore, the consultant believes his depreciation reserve study is the best indicator of the reserve. Applicant's prior rate showing in Advice Letter 5 reflected a loss. The rates authorized as a result of that advice letter were designed to yield a 4.6% rate of return. The consultant concludes that ratepayers have not contributed to applicant's depreciation expense through rates yielding losses rather than a reasonable level of earnings. Through use of longer lives in his study, the consultant derived a 1988 depreciation

reserve of \$33,971, which is \$19,525 less than that derived by Branch.

The Branch witness began with the reserve for depreciation accepted in D.89823, added accruals on depreciable utility plant in service at the 3.1% composite depreciation rate derived from applicant's earlier depreciation study and made adjustments for plant retirements.

Applicant did not seek rate relief for seven years. It can not now reconstruct a reserve to recapture past losses and/or failures to earn past depreciation accruals by increasing its rate base at the expense of its present ratepayers. Applicant did not show that there was a gross underestimation of plant lives in the past which might justify a revision of the reserve. On the contrary, this record shows that the plant is substandard and poorly maintained. Either the distribution system leaks like a sieve and/or wholesale water diversions from the system are occurring. If funds were available, it would be desirable to replace most of the system. There is no basis for applicant's reserve adjustment. We adopt the Branch estimate adjusted for the office furniture accrual discussed above.

#### Working Cash

Both applicant and Branch used a simplified method of calculating working cash assuming bimonthly billing.

Differences in working cash reflect operating expense estimates. The adopted working cash uses the simplified methodology for monthly billings.

Rate Base Summary

The following tabulation shows the 1989 rate base estimates of applicant, Branch, and the adopted rate base which were discussed above:

**Rate Base  
Test Year 1989**

<u>Item</u>	<u>Applicant</u>	<u>Branch</u>	<u>Adopted</u>
Average Plant	\$84,056	\$71,532	\$71,832
Less Avg. Depr. Resv.	37,505	56,781	56,826
Less Advances	0	0	0
Less Contribution	0	0	0
Plus Working Cash	2,660	1,780	1,550
<u>Plus Mat. &amp; Supp.</u>	<u>0</u>	<u>0</u>	<u>0</u>
Avg. Depr. Rate Base	\$49,210	\$16,531	\$16,556

Rate of Return

Applicant argues a 13.5% rate of return would be reasonable if good service was being provided by applicant. However, at proposed rates applicant seeks a return of 10.8%. Applicant contends that a small utility like itself has greater risks than a large utility like SCE. It cannot go to the stock market for investment funds and it is difficult to obtain money for system improvements. Therefore, applicant must generate internal funds or rely on its owner for infusions of capital. It is entitled to a return commensurate with its risk. Further, applicant asserts that its customers benefit from applicant being in the 15% Federal Income Tax bracket.

Branch recommends a 10.5% rate of return, the midpoint of a 10.25% to 10.75% range for small utilities recommended by the Accounting and Financial Branch of CACD.

We have given more weight to comparable rates of return for small utilities and for applicant's need to meet unforeseen contingencies than to the quality of its service in adopting the



Branch-recommended rate of return of 10.5%. The Commission has previously considered poor service in establishing rates of return. Applicant's rate of return should not be higher than the rates of return of comparable utilities based on the poor quality of service and management discussed in this decision. ✓

Rates

Commission rate design policy generally permits recovery of 50% of fixed costs in service charges. Applicant's existing service charges recover 74% of fixed costs. In the adopted rates we have incorporated most of the increase in quantity rates reducing the percentage of fixed costs recovered from service charges to 64.6%. However, we do not wish to increase quantity rates further at this time. The quantity rate of \$1.50 per hundred cubic feet adopted in this decision could make it uneconomic to continue certain irrigation uses. We wish to avoid worsening that potential at this time since it will adversely impact revenues. Further, we are not convinced that many customers will request installation of smaller meters to reduce their service charges. Water pressures are low in the system. Switching to smaller meters could result in further reductions in pressure or flow volumes to customers who elect to be served through smaller meters.

Applicant has not restricted irrigation use during periods of peak demand at the expense of residential use. We will require applicant to submit a plan to the Director of CACD, within 90 days from the effective date of this decision, for curtailing irrigation during periods of heavy demand to ensure that domestic supplies are available at adequate pressures throughout its system, particularly in the upper portion of the service area. This will require applicant to monitor peak demand pressures and to schedule irrigation during off-peak periods. Applicant should explain what monitoring procedures it proposes to follow and maintain a log of pressure measurements and irrigation curtailments. If necessary separate services and meters for irrigation use to an existing

customer may be installed. Applicant's revenues should be enhanced in determining billing for previously undetected water use and in undertaking necessary collection action(s) to recover estimated revenues for illegal water diversions.

Furthermore, applicant's revenues are likely to increase if the accuracy of its meters is improved.

Branch recommends that applicant be ordered to initiate meter testing to comply with Title VI of GO 103, and to inform Branch when all of its meters have been tested. There is an expense associated with meter testing, but in general, older meters needing repairs underrecord consumption, which results in a revenue loss to utility. For smaller meters the net cost to applicant for replacing older copper cased meters with new accurate plastic cased meters, may compare favorably with testing, repairing, and reinstalling the older meters. There would be a positive salvage value for the older meters.

SDWBA

In spite of the need for major system improvements, applicant has never perfected the application for a SDWBA loan. The need for such improvements, now including the need for main replacements and enlargements, is increasing with time. Applicant should promptly consult with HD, District's manager, and/or a consultant to assess the scope of needed system improvements. Applicant should determine the potential availability of SDWBA funds or of other funds and take the indicated actions to secure funding for needed improvements. Applicant should furnish quarterly reports of actions it has taken in this regard to the Director of CACD.

Other

We concur with Branch's recommendation that applicant be ordered to correct its record keeping practices to conform with the Uniform System of Accounts for Class B, C, and D water utilities. Those revisions should be made and a report should be furnished to

the Director of CACD confirming that the work has been completed within 90 days of the effective date of this decision.

Applicant should submit a meter testing schedule to the Director of CACD within 180 days of the effective date of this order to conform with Branch's meter testing recommendations, to change meter registers measuring gallons to cubic feet, and for meter installations as discussed above. ✓

Applicant should install well production meters within 180 days of the effective date of this decision and notify the Director of CACD and Branch of the completion date of the installations. Applicant should submit monthly reports to the Director of CACD for one year after installation of production meters showing recorded production by well, total production, and water sales.

Applicant should install transient protection devices to protect its well pumping and booster pumps from lightning strikes which have caused system outages and it should install valves pursuant to GO 103 to segment the system and curtail the extent of outages. The installations should be completed within 270 days of the effective date of this decision.

Applicant should also obtain title to rights of way, or easements covering all of its system. A report on the completion of the work should be furnished to the Director of CACD.

Applicant's 1982, 1983, 1987, and 1988 annual reports all show that applicant operated at a loss for those years. It is unlikely that applicant operated at a profit between 1984 to 1986. In light of the many requirements discussed above to correct deficiencies in applicant's operations, we conclude that there is no purpose served in requiring applicant to file for a rate reduction for failure to bring supply up to the 250 gpm level by July 1982 as required by D.93037. Applicant has increased its supply from 30 gpm to 130 gpm in 1981 to 207 to 217 gpm in 1987. The latter amounts are adequate to meet all domestic requirements

on the system. But that output range can not cope with the huge water losses and irrigation requirements applicant is experiencing. Therefore, we will require applicant to actively institute and monitor an irrigation scheduling procedure during the irrigation season to maintain adequate domestic supplies while it pursues methods for funding needed system replacements and repairs, eliminates unauthorized diversions, and otherwise takes substantial steps to reduce system water losses to a reasonable level.

We put applicant on notice that if it does not make a meaningful and successful effort to improve service we will consider taking action under Section 855<sup>2</sup> to appoint a receiver.

Comments on the ALJ's Proposed Decision

Comments on the ALJ's Proposed Decision were received from applicant. They are discussed below:

1. On compensation for office and management services applicant reiterates its closing argument. The draft finds that the total level of expenses for office salaries and management salaries estimated by Branch are reasonable. There was no nominal

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2 "855. Whenever the commission determines, after notice and hearing, that any water or sewer system corporation is unable or unwilling to adequately serve its ratepayers or has been actually or effectively abandoned by its owners, or is unresponsive to the rules or orders of the commission, the commission may petition the superior court for the county within which the corporation has its principal office or place of business for the appointment of a receiver to assume possession of its property and to operate its system upon such terms and conditions as the court shall prescribe. The court may require, as a condition to the appointment of such receiver that a sufficient bond be given by the receiver and conditioned upon compliance with the orders of the court and the commission, and the protection of all property rights involved. The court shall provide for disposition of the facilities and system in like manner as any other receivership proceeding in this state." (Added Stats. 1980, Ch. 1078.)

specific amount assigned to managerial salary. The proposed decision contains repeated references to management and operating failures by Mrs. Groom. Her continuing inability to properly run Tehachapi's affairs leads us to assign nominal values for those management services. While she purportedly could not give her attention to applicant between the long illnesses of her husband and her mother, she was able to stay at Stanton, located well over 100 miles from applicant's service area, to deal with her interests in an asphalt company.

2. At the hearings in this matter, Mrs. Groom testified that she had been living in Huntington Beach for over one-half a year to care for her mother; would continue to live in Huntington Beach on a temporary basis. Applicant states that Mrs. Groom permanently resides in Tehachapi; she lives there now. We find it reasonable to delete some of the references to Huntington Beach from the proposed decision.

3. Applicant requests modification of Ordering Paragraph 2, which authorizes the filing of advice letter offsets for well production and other meters, to include offset rate relief for the reasonable costs of adding transient devices and installing valves to comply with GO 103. It would be reasonable to modify the proposed decision to include those items. However, applicant will be limited to one offset increase for capital items per year.

4. Applicant requests more time to comply with Ordering Paragraph 7 for submission of its initial report on the scope of needed improvements and to identify and secure funding for those improvements from 120 days to 270 days.

Normally 120 days would be adequate for the necessary compliance. However, the prerequisite ground survey of the system may be delayed by wet or snow covered roads. In order to extend the survey time and the initial filing date due to weather related delays, applicant will be required to file a list of the dates it was unable to proceed with the Director of CACD, on a monthly

basis. Under this procedure the initial filing date should not be later than 270 days from today. Applicant should not delay in finding funding sources and in determining procedures to be followed in lining up potential lines of credit.

5. Applicant requests that the existing customer restrictions be lifted, upon its compliance with Ordering Paragraphs 5, 6, and 7 of the proposed decision to avoid the costs of obtaining Commission consent to remove the restrictions.

We will not grant that request. It will be necessary for Branch to evaluate the results of applicant's efforts to improve its system; increase the reliability of its supply, including measures to curtail irrigation service during high use periods; reduce outages, water losses, and diversions; before the restriction can be lifted. If Branch's evaluation indicates that applicant can add customers to the system, we could entertain a petition for modification of this decision from applicant.

#### Findings of Fact

1. The water distribution system originally installed to provide service to applicant's rural service area was substandard. It contained thin walled pipe inadequately protected from corrosion, lacked necessary valves to segment the system, and contained an excessive length of undersized main.

2. Applicant has not complied with repeated Commission orders to connect its Well 3 to the system to increase the system water supply to 250 gpm.

3. Applicant has not restricted irrigation use of water during periods of peak demand. Applicant's failure to control irrigation use has contributed to outages or extremely low water pressures for residential service in portions of its service areas.

4. Applicant has not made suitable arrangements for customers to advise it of emergency conditions. Applicant's owner is not in touch with what is happening in the system. She has not taken timely action to restore interrupted service. She has not

notified the Commission and HD about system outages or notified her customers of scheduled outages. She is not in the Tehachapi area for prolonged periods of time.

5. Applicant's billing errors are at an unacceptable level. Applicant is not billing in compliance with its filed tariffs. Applicant's billing forms are not in accord with its filed Rule 5.

6. Applicant does not bill all persons supplied with water from its system, including a tenant in a home owned by its owner. Applicant has not taken reasonable actions to collect on its delinquent bills.

7. The use of 1987 average consumption provides the best information available for company quantity sales.

8. The use of 23 customers for computing service charges on the basis described above is reasonable.

9. Applicant has not complied with GO 103 for periodic testing of the accuracy of its meters. The registers of some of applicant's meters read in gallons; they should read in cubic feet consistent with the quantity billing units in applicant's metered tariff schedule.

10. The level of unaccounted for water is grossly excessive and indicative of neglect in operating and maintaining the system.

11. Use of an unaccounted for water level of 15% of sales 1987 pumping tests, and present SCE rates provide a reasonable basis for determination of purchased power expenses for this proceeding.

12. Applicant does not meter its sources of supply or maintain production and monthly sales records.

13. There is a potential for contamination due to cross connections between applicant's system and privately owned sources of supply. There is a potential for contamination due to backflow due to system failures.

14. The compensation level proposed by applicant for system operation and maintenance work and the compensation level proposed

by Branch for meter reading, customer notices, turn-ons and turn-offs provides a reasonable allowance for employee labor expense.

15. Branch's use of more up-to-date information than applicant used yields a reasonable weighted average for materials expense.

16. Expenses for a truck used for utility operations and for other purposes should be allocated by use. Branch's estimate meets that criteria and should be adopted for transportation expense.

17. Branch's estimate for office and management salaries are reasonable for the scope of work required for applicant's operations. Applicant is deficient in record keeping, billing, and management of the company.

18. A level of 0.5% of revenues is reasonable for uncollectible expense.

19. A comparison of rental allowances for applicant and for other small utilities provides a reasonable basis for establishing rental expenses for applicant in a non-arms-length determination.

20. Office supply expense should reflect monthly billing by applicant.

21. Applicant's operations do not require the monthly services of an accountant.

22. Applicant needs further justification for establishing a reasonable allowance for insurance expense. But a temporary surcharge for needed insurance coverage will be authorized, subject to refund.

23. General expenses should include increased expenditures for water testing and HD permit fees.

24. Applicant did not show that any funds were expended by it or by its predecessors in interest in defending or acquiring water rights. ✓

25. An allocation of the cost of office furniture should be included in rate base.



26. Applicant's proposed restatement of its depreciation reserve is inconsistent with the straight line remaining life method. The substandard condition of the distribution system does not provide physical justification for use of longer service lives. ✓

27. The working cash allowance should reflect adopted expenses and monthly billings by applicant.

28. Applicant's allowable rate of return should be comparable with that authorized for other small utilities.

29. The percentage of fixed costs recovered from service charges will be reduced from 74% at present rates to 64.6% at authorized rates. The lifeline quantity rate will be eliminated.

30. The pumping equipment on the system is not protected from lightning strikes.

31. Applicant did not develop a water supply of 250 gpm by July 31, 1982.

32. Applicant did not subsequently reduce its rates as required by Commission order.

#### Conclusions of Law

1. Applicant should assess the scope of needed system improvements and the potential availability of SDWBA funds or of other funds to construct those improvements. Applicant should take the indicated actions to secure funding for needed system improvements. Applicant should furnish quarterly reports of actions it has taken to secure funding for system improvements to the Director of CACD beginning 120 days from the effective date of this decision. The initial report may be delayed if weather related problems prevent completion of system evaluation as discussed under Item 4 of Comments on ALJ's Proposed Decision.

2. Within 90 days from the effective date of this decision, applicant should submit a plan to the Director of CACD for curtailing irrigation during periods of heavy demand as discussed above to ensure that domestic supplies are available at adequate pressures throughout its system.

3. Within 15 days after the effective date of this decision, applicant should provide each of its customers, the Director of CACD, and HD with a telephone number(s) to report emergency conditions and applicant should make suitable arrangements to respond promptly to emergency conditions.

4. Applicant should promptly notify the Water Utilities Branch in Los Angeles and HD of system outages and should routinely notify its customers of scheduled outages.

5. Within 30 days from the effective date of this order, applicant should report to the Director of CACD the steps it has taken to bill its customers correctly. It should specify what steps it has taken to identify all users on its system, bill, and collect for all water service provided from its system. Subsequently four quarterly reports should be filed summarizing the results achieved in billing and collecting for all water supplied from its system.

6. Applicant should submit revised forms by advice letters discussed above within 30 days from the effective date of this decision.

7. Within 180 days from the effective date of this decision, applicant should submit to the Director of CACD a schedule for testing its meters, change meter registers, and relocate meter installations as discussed above.

8. Within 90 days after the effective date of this decision, applicant should revise its bookkeeping practices to conform with the Uniform System of Accounts for Class B, C, and D water utilities. It should file a report with the Director of CACD confirming that the corrections have been completed.

9. Within 180 days from the effective date of this decision, applicant should meter its sources of supply, maintain production and monthly sales records.

10. Applicant should notify the Director of CACD, HD, and all customers with dual sources of water supply to install an air gap

or backflow prevention device to prevent contamination by backflow into its system.

11. Applicant should not add customers to its system to any premises not previously served without further order of the Commission. This requirement should not prevent installation of a new service if needed to insure compliance with irrigation service limitations.

12. Within 90 days from the effective date of this decision, applicant should survey its system, as discussed on page 12 above (in the section titled "Purchased Power") to reduce the volume of unaccounted for water on its system and it should file a report on the results of its study with the Director of CACD. The initial filing may be extended for weather related delays as described under Item 4 of Comments on ALJ's Proposed Decision.

13. Operating revenues should reflect service charges for larger meters used in the system and billings to the rental property owned by Mrs. Groom.

14. Excessive purchased power costs caused by applicant's failure to construct, operate, and maintain its system properly should not be adopted for ratemaking purposes.

15. Income taxes should be based on the rates and minimum State tax now in effect and on adopted expenses.

16. Applicant has not adequately justified an allowance for needed insurance expenses in this proceeding. A further showing as discussed under the Insurance heading above should be promptly implemented to prevent refunding of all of the rate surcharge and to incorporate actual insurance costs of up to \$2,130 in rates.

17. Applicant should not be authorized to restate its reserve for depreciation to secure additional rate base or to base its depreciation accruals on the restated reserve. The physical condition of applicant's system does not warrant an increase in service lives.

18. No allowance for water rights in applicant's rate base should be authorized since applicant did not show that it or its predecessors incurred costs in defending or purchasing water rights. The value of water rights does not have any bearing on determining applicant's rate base. Applicant should book a \$12,674 acquisition adjustment.

19. The water rights are used and useful in applicant's operations. They should not be transferred, leased, or encumbered without an order of the Commission.

20. The plant cost and expenses associated with use of applicant's truck and office equipment should be allocated where those facilities are used for non utility purposes.

21. The rates set forth in Appendix A are just and reasonable for the future. Applicant's existing rates insofar as they differ from those rates are unreasonable.

22. Applicant should not now be required to reduce its rates. Reductions would prevent implementation of needed remedial measures by applicant.

23. Applicant should install well production meters within 180 days of the effective date of this decision and notify the Director of CACD of the completion date of the installations.

24. Applicant should submit monthly reports to the Director of CACD for one year after installation of production meters showing recorded production by well, total production, and water sales.

25. Applicant should install transient protection devices to protect its well pumping and booster pumps from lightning strikes which have caused system outages and it should install valves pursuant to GO 103 to segment the system and curtail the extent of outages. The installations should be completed within 270 days of the effective date of this decision. In addition applicant should obtain title to rights of way, or easements covering all of its

system. A report on the completion of the work should be furnished to the Director of CACD.

26. It is unlawfully discriminatory for applicant not to bill or to seek to collect for all water service on a consistent basis.

27. Due to applicant's urgent need for additional revenues the decision should be made effective today.

ORDER

IT IS ORDERED that:

1. Tehachapi Mountain Water Co. (applicant) is authorized to file on or after the effective date of this decision the revised rate schedules for 1989 shown in Appendix A. The revised schedules shall apply to service rendered on and after five days after the date of filing.

2. Within 270 days of the effective date of this decision, applicant shall install transient protection devices to protect its well pumping and booster pumps from lightning strikes which have caused system outages and it shall install valves pursuant to GO 103 to segment the system and curtail the extent of outages.

3. Applicant shall start action to obtain title to rights of way or easements covering all of its system within 270 days of this effective date of this decision. A report on the completion of the work shall be furnished to the Director of the Commission Advisory and Compliance Division (CACD).

4. Within 180 days from the effective date of this decision, applicant shall submit a schedule for testing its meters, change meter registers and relocated meter installations as discussed above.

5. Within 180 days from the effective date of this decision, applicant shall meter its sources of supply; it shall subsequently maintain production and monthly sales records.

6. Applicant shall install well production meters within 180 days of the effective date of this decision and notify the Director of CACD and Branch of the completion date of the installations. Applicant shall submit monthly reports to the Director of CACD for one year after installation of production meters showing recorded production by well, total production, and water sales.

7. Within 120 days from the effective date of this decision, applicant shall file an initial report with the Director of CACD outlining the scope of needed improvements on its system, the availability of SDWBA Funds or of other funds to construct those improvements, and of its actions to secure such funds. Applicant shall subsequently file quarterly status reports. Applicant may secure additional time for its initial filing caused by weather related delays as described under Item 4 of Comments on ALJ's Proposed Decision. The filing date of the initial report should be received no later than 270 days from today.

8. Within 90 days from the effective date of this order, applicant shall submit a plan to the Director of CACD for curtailing irrigation during periods of heavy demand.

9. Within 90 days after the effective date of this decision, applicant shall revise its bookkeeping practices to conform with the list for Class B, C, and D water utilities. It shall file a report with the Director of CACD confirming that the corrections have been completed.

10. Within 90 days from the effective date of this decision, applicant shall notify all customers with dual sources of water supply to install an air gap or backflow prevention device to prevent contamination by backflow into its systems and furnish copies of its letters to the Commission and to HD. ✓

11. Within 90 days from the effective date of this decision, applicant shall survey its system, as discussed on page 12 above in the section titled "Purchased Power", to reduce the volume of ✓

unaccounted for water on its system and it shall file a report on the results of its study with the Director of CACD and with Branch.

12. Within 30 days from the effective date of this decision, applicant shall report to the Director of CACD the steps it has taken to correctly bill its customers. This filing shall specify what steps it has taken to bill and collect for all water service provided from its system. Subsequently four quarterly reports shall be filed summarizing the results achieved in billing and collecting for all water supplied from its system.

13. Applicant shall submit revised billing forms by advice letter within 30 days from the effective date of this decision.

14. Within 15 days from the effective date of this decision, applicant shall provide each of its customers, the Director of CACD and the Kern County HD with a telephone number(s) to report emergency conditions and applicant shall make suitable arrangements to promptly respond to emergency conditions. Applicant shall describe those arrangements and shall provide notice of changes in procedures or numbers in its notices and filings.

15. Applicant shall promptly notify CACD in Los Angeles and HD of system outages and shall routinely notify its customers of scheduled outages.

16. Applicant shall immediately book a \$12,674 acquisition adjustment.

17. Applicant shall not add customers to its system to any premises not previously served without further order of the Commission. This requirement shall not prevent installation of a new service(s) if needed to insure compliance with irrigation service limitations.

18. Applicant is not authorized to restate its reserve for depreciation.

19. Applicant shall not transfer, lease, or encumber its water rights without an order from the Commission.

20. Applicant is not required to reduce rates for failure to achieve an increase in supply to 250 gpm as required by D.93513.

21. Applicant is authorized to file offset advice letters to begin recovering the reasonable cost of service for the following items:

- a. Well production and other meters required by Ordering Paragraphs 5 and 6. Transient protection devices and valves required by Ordering Paragraph 2. No more than one advice letter offset filling per year shall be made related to plant improvements.
- b. Include the cost of rates, primarily in service charges, to replace the temporary 60 day surcharge on rates insurance, after meeting the guidelines mentioned in the opinion of this decision.

This order is effective today.

Dated DEC 6 1989, at San Francisco, California.

G. MITCHELL WILK  
President  
FREDERICK R. DUDA  
STANLEY W. HULETT  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
Commissioners

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

*Wesley Franklin*



## APPENDIX A

## TEHACHAPI MOUNTAIN WATER CO.

## Schedule No. 1

METERED SERVICEAPPLICABILITY

Applicable to all metered service including that for irrigation service.

TERRITORY

Tracts Nos. 2359 R/S and 2439 R/S, and vicinity, located five miles west of Tehachapi, Kern County.

RATES

Per Meter  
Per Month

## Service Charge:

For 5/8 x 3/4-inch meter.....	\$18.90	(I)
For 3/4-inch meter.....	24.80	
For 1-inch meter.....	28.85	
For 1-1/2-inch meter.....	36.00	(I)

## Quantity Rates:

All water, per 100 cu.ft..... \$ 1.50

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

SPECIAL CONDITIONS

1. Combination residential and irrigation service may be terminated in the event that irrigation service is not curtailed upon request of the utility. In that event a separate service shall be utilized to provide domestic and irrigation usage.

2. The utility may schedule irrigation usage.

3. A temporary insurance surcharge of 14.04% is authorized subject to refund. The surcharge rates shall be in force for 60 days after the effective date of applicant's December 1989 rate filing. The insurance cost may be incorporated into rates not later than 60 days after the effective date of applicant's rate filing.

(End of Appendix A)

## APPENDIX B

## TEHACHAPI MOUNTAIN WATER CO.

COMPARISON OF RATESMetered Rate Service

<u>Per Meter Per Month</u>		
<u>Present</u>	<u>Authorized</u>	<u>Percent</u>
<u>Rates</u>	<u>Rates</u>	<u>Increase</u>

## Quantity Rates:

First 300 cu.ft. or less per month	\$ 0.50	\$ 1.50	200.0
Over 300 cu.ft., per 100 cu.ft.	0.68	1.50	120.6

## Service Charge:

For 5/8 x 3/4-inch meter.....	10.50	18.90	80.0
For 3/4-inch meter.....	13.50	24.30	80.0
For 1-inch meter.....	16.00	28.85	80.3
For 1-1/2-inch meter.....	20.00	36.00	80.0

A monthly bill comparison for a customer with a one-inch meter is shown below:<sup>1</sup>

<u>Usage</u>	<u>Present</u>	<u>Authorized</u>	<u>Amount</u>	<u>Percent</u>
<u>100 cu.ft.</u>	<u>Bills</u>	<u>Bills</u>	<u>Increase</u>	<u>Increase</u>
0	\$16.00	\$28.85	\$12.85	80.3
5	18.86	36.35	17.49	92.7
10	22.26	43.85	21.59	97.0
15	25.66	51.35	25.69	100.1
16.6 (Avg. Use)	26.75	53.75	27.00	100.9
20	29.06	58.85	29.79	102.5
30	35.86	73.85	37.99	105.9
40	42.66	88.85	46.19	108.3
50	49.46	103.85	54.39	110.0

<sup>1</sup> All bills to be further increased by 14.04% for up to 60 days.

(End of Appendix B)

## APPENDIX C

## TEHACHAPI MOUNTAIN WATER CO. ✓

ADOPTED QUANTITIES

Test Year 1989

Federal Tax Rate:	15%
State Tax Rate:	
Min. 1989	\$600
Uncollectible Rate:	0.5%

Expenses: ✓1. Purchased Power

Southern California Edison Company	
Rate Schedule	PA-1
Effective Date of Schedule	2/1/1989
KWh Used	7,000
\$/kWh	0.08862
Charge	\$621
Service Charge	\$317
Customer Charge	\$392
Total Purchased Power	\$1,330

2. Insurance 03. Consumption

Total (Ccf.)	4,575
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4. Customers

5/8" x 3/4"	.....	1
3/4"	.....	1
1"	.....	15
1-1/2"	.....	6
Total		23

(End of Appendix C)

Decision

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the APPLICATION of )  
TEHACHAPI MOUNTAIN WATER CO., a )  
Public Utility Water Corporation, )  
for immediate emergency rate relief )  
and for a general rate increase for )  
water service in the community of )  
Tehachapi (PUC Code Section 454). )

Application 88-03-068  
(Filed March 31, 1988)

Chester O. Newman, for Tehachapi Mountain  
Water Co., applicant.  
Izetta C. R. Jackson, Attorney at Law, and  
Willem R. Van Lier for the Commission  
Staff.

OPINION

Summary and Conclusion

This decision grants in part the request of the Tehachapi Mountain Water Co. (applicant), for a general increase in rates for 1989. It denies applicant's request to increase its reconnection charge, denies applicant's request to book unsupported costs for water rights, and denies applicant's request to reduce its depreciation reserve. The increase authorized is \$7,599 (100.3%) for 1989 is designed to yield a rate of return of 10.5%.

Background

This utility has a tangled procedural history and a long history of service problems and noncompliance with Commission decisions which bears recapping briefly so that the background of this order is clear. Helen and Julian Rastica filed Case (C.) 9073 seeking a finding that Tehachapi Mountain Water Service, among others, be declared a public utility water corporation serving an area including a 162.5 acre portion of a 320 acre farm originally owned by Charles E. Cook in which a water system was installed to serve 2 subdivisions with a total area of 85 acres subdivided into

38 lots and 7 adjacent parcels with an area of 77.5 acres. The subdivisions consist of 1 1/2 to 5 acre ranch type lots, some containing permanent residences. One customer with property outside of the service area extended his own 4-inch service line about a quarter of a mile to a 1 1/2 inch meter within the service area.

Decision (D.) 78094 dated December 15, 1970 declared Tehachapi Mountain Water Service to be a public utility water corporation and dismissed the complaint with respect to the other parties. D.81132 ordered that all references to Tehachapi Mountain Water Service be changed to applicant's name to conform with the company's articles of incorporation.

The utility was requested to: file a current system map, an original cost and depreciation reserve requirement study, and a depreciation rate study based on the straight line remaining life method. It was also required to secure the conveyance of certain used and useful utility plant from Tehachapi Land & Orchard Company and Charles E. Cook, to submit a letter stating that Well 3 had been connected at the system, to submit a plan for installing distribution system valves to meet the segmentation requirements of the Commission's General Order (GO) 103, and to obtain and submit a copy of a water supply permit. The utility was ordered not to extend its mains to serve additional customers or to serve additional customers off an undersized main.

From the beginning, adequate water supply was a problem. The wells supplying the system were located in the then overdrafted Brite groundwater basin. An adjudication of the Brite basin and of the adjacent overdrafted Cummings and Tehachapi basins was in progress during the processing of C.9073. The water rights of 235 acre feet (AF) per year awarded by the Kern County Superior Court to Tehachapi Mountain Water Service were insufficient for ultimate development of the utility service area. However, a state

water plan connection to provide Feather River water has been extended to serve those areas.

In D.89823, the utility water service plant and system was sold and transferred to Terrance Lee Jetton and Wayne E. Groom. At that time, the utility had failed to comply with Commission orders including the connection of Well No. 3 to the system; it had not filed a copy of a water supply permit or a revised rule for interruptable irrigation service with the Commission.

In D.91122 a transfer of the utility system from Terrance Lee Jetton and Wayne E. Groom to Wayne E. Groom and Evelyn F. Groom was authorized. Mr. Groom expended over \$5,000 to replace the pumping equipment in Well 2, but a failure of the casing in Well 2 made it necessary to replace the well casing and pumping equipment in that well and/or to place Well 3 in service. The utility was given a specific date to bring the system supply up to 250 gallons per minute (gpm) and was authorized to suspend or curtail irrigation service, pending an augmentation of the water supply with a Safe Drinking Water Bond Act (SDWBA) loan.

On February 10, 1981 the utility filed an application with the Department of Water Resources (DWR) for a SDWBA loan of \$60,000 to activate two wells, provide storage, install meters and valves. DWR pointed out deficiencies in the loan application to the utility. Those deficiencies were not corrected.

D.93037 denied the request for a further extension of time to bring its supply up to 250 gpm. A rate reduction was ordered if applicant did not act to increase its water supply. D.93318 denied the utility's petition for modification of the order reducing its rates since no new facts or arguments were produced by applicant.

Following expenditures of about \$8,000 to rehabilitate Well 2, the water supply increased from 30 gpm to 130 gpm from Wells 1 and 2. D.93318 then extended the date to increase supply to 250 gpm and extended the deadline for reducing rates if the

utility failed to develop the supply until July 31, 1982. That deadline was not met, but reduced rates were not filed.

In November 1987 the 2 wells had a combined output ranging from 207 to 217 gpm, at different discharge heads. Well 3 was still not connected to the system.

Recent Service Problems

Applicant's owner Mr. Groom was terminally ill during 1984 and 1985. Mrs. Groom testified that during her husband's long illness she nursed and cared for her husband until he died. During that time she operated the system for the first time, paid the utility's bills but did not have time for company paper work or for follow-up on delinquent accounts. Some customers did not pay their bills, but called out plumbers without her permission to fix the system and ran up "tremendous bills" which she paid. Due to pressure from the Kern County Health Department (HD) she spent her own money to make timely repairs to the system because applicant's revenues were insufficient to pay those repair bills.

Further longstanding system and operating deficiencies were confirmed in applicant's Exhibit 10 which contains a copy of the utility's 1979 temporary water supply permit and 1986 and 1987 correspondence to Mrs. Groom describing violations of HD requirements. The correspondence states that the utility failed to: notify its customers of planned outages; have a designated liaison person to contact in emergency situations; repair mains in a timely manner; correct low pressure conditions and eliminate outages in upper portion of its service area, especially during the irrigation season; and keep one of its wells in operation. HD advised of possible penalties for failure to correct these violations and reminded the utility of this Commission's moratorium on adding customers to its system.

Other problems include: lack of rights of way for some pipelines; an extended system outage caused by damage to a pump

motor apparently caused by lightning, and the iron content in water from Well 1 exceeding HD's secondary drinking water standard.

The testimony and statements of applicant's customers showed their continuing dissatisfaction with applicant's service. During periods of heavy demand, water pressure for some customers approaches zero; there are times when no water at all is available for prolonged periods. Customers have fruitlessly tried to contact Mrs. Groom, who now lives in Huntington Beach, or her daughter, or the system operator to restore service. Some of the customers have dug trenches to assist in making repairs. Applicant has refused customers' offers of assistance. Apparently on one occasion a customer reset system pressure controls at too high a level causing a costly blowout of the system.

Commission Advisory and Compliance Division Water Utilities Branch's (Branch) engineer testified that the system was old and in poor and neglected condition. One of the system's two pressure tanks has poor seals which can not withstand water pressures exceeding 40 pounds per square inch, the system lacks suitable valves to segment the system to facilities repairs, and records of connected customers are poor.

Tehachapi-Cummings County Water District's (District) engineer manager testified that District assisted applicant at the urging of the HD until an objection was raised to the expenditure of District funds to assist a private company. For an extended time District operated and repaired the system. It replaced and enlarged applicant's mains in the vicinity of its wells. District further testified that the system's mains were substandard, thin walled and inadequately protected from corrosion.

#### Possible System Sale

Exhibit 10 states that in 1986 Mrs. Groom indicated she would like to sell the water system. Customers discussed forming a mutual water company to take over and improve the operations. Customers also sought District's assistance in forming a Benefit



Assessment District. While not precluding such action District would prefer to not provide retail residential water service. The following options were outlined for applicant's action:

1. Hiring someone to operate and manage the water system and to collect delinquent bills through small claims actions if necessary.
2. Sell the water company to another individual.
3. Turn the system over to local property owners.
4. Form a separate public district which would run the system and possibly purchase water from District. (State water plan irrigation water supplies obtained from District would need treatment for use as a potable supply.)

In evaluating those options at a HD hearing it was noted that applicant's ownership status was unclear because applicant had defaulted on making its loan payment for over one year. The parties holding the encumbrances have not indicated any intent to reacquire the system through default.

#### Hearings

After notice, hearings were held in Tehachapi and the matter was submitted on receipt of arguments and late-filed exhibits. Applicant's proposed Exhibit 5 is treated as its opening argument. A reply brief was submitted on behalf of Branch and a closing argument was submitted by applicant.

Testimony on behalf of applicant was presented by a consulting engineer and by Mrs. Groom. Branch's testimony was presented by a Branch engineer and by District's engineer-manager. Five customers testified or made statements.

The Administrative Law Judge (ALJ) and the assigned Commissioner followed the recommendation of Branch's Program Manager not to act on applicant's request for an emergency increase

of 100%, but to proceed with the case-in-chief in which applicant is seeking an overall increase of 348.3%. Branch's letter to the ALJ and to applicant questioned the need to rush through such a large rate increase without a showing that applicant could not continue to operate the system. The letter notes that applicant had waited for over seven years before seeking a rate increase. Branch believes the emergency increase was based on questionable increases in expenses including reimbursement for applicant's owner, proposed insurance, and purchased power expenses.

Summary of Earnings

Table 1 contains a summary of earnings comparison of applicant's operations for 1989 by applicant and Branch and the adopted results at present and at authorized rates. The following text describes the differences in estimates and the basis for the adopted and authorized amounts shown in Table 1.

TABLE 1  
TEHACHAPI MOUNTAIN WATER COMPANY  
SUMMARY OF EARNINGS  
(Test Year 1989)

Items	Present Rates			Authorized 1989
	Applicant	CACD	Adopted	
<u>Operating Revenue</u>	\$ 5,800	\$ 7,830	\$ 7,569	\$15,168
<u>Operating Expenses</u>				
Purchased Power	830	1,230	1,330	1,330
Employee Labor	2,000	1,080	1,670	1,670
Materials	860	700	700	700
Contract Work	2,000	2,000	2,000	2,000
Transportation	1,240	440	440	440
Office Salaries	3,900	1,350	1,350	1,350
Management Salaries	300	0	0	0
Uncollectibles	30	40	38	76
Rents	600	300	300	300
Office Supplies	320	215	320	320
Professional Serv.	1,350	900	1,000	1,000
Insurance	2,130	0	0	0
General	840	640	840	840
Subtotal	16,400	8,895	9,988	10,026
Depreciation	2,360	2,217	2,247	2,247
Taxes O/T Income	250	250	250	250
CCFT	200	600	600	600
FIT	0	0	0	307
Total Deductions	19,210	11,962	13,085	13,430
Net Revenue	(13,410)	( 4,132)	( 5,516)	1,738
Rate Base	49,210	16,531	16,556	16,556
Rate of Return	( 27.3%)	( 25.0%)	( 33.3%)	10.5%

(Negative)

Operating Revenues

Applicant calculated 1989 meter sales based on 22 customers, service charges for 22 customers served through 5/8 x 3/4 inch meters and no flat rate customers. Applicant assumed that all of its customers would seek a change to minimum sized meters to reduce monthly service charges. Applicant reviewed its customer estimates based on an incomplete field investigation, showing in Exhibit 11 only 18 active customers on its system. A late-filed revision of Exhibit 11 identifies 20 customers, shows existing meter sizes, type of occupancy or use, acreage of parcels, customer status, and meter sizes following a partial downsizing of meters. Revised Exhibit 11 actually shows 23 names, indicating that the occupant of a rented home moved out owing 4 months of water bills and that another renter's service had been turned off owing payments for 3 years of service. The exhibit shows no meter for water service to a rented house owned by Mrs. Groom or for a new customer who had requested service. Applicant's 1988 annual report shows 20 active metered connections and 2 active flat rate connections.

Since there was no recorded consumption data for the years 1984 through 1986, both applicant and Branch used total annual 1987 recorded consumption divided by the 22 customers billed in 1987 for quantity rate revenue calculations. Branch's revenue estimate reflects the consumption of 24 customers based on the addition of a new customer to the system and includes billings to a rental property owned by Groom.

Branch service charge estimates are based on an existing and a new 3/4 inch meter, 17 existing and 1 new one-inch meters, and 4 existing 1 1/2 inch meters.

The numbers of customers on a system fluctuates from time to time. The 1989 revenue estimates adopted in this decision are based on water sales to 23 customers at the average consumption per customer used by applicant and Branch and the service charge

estimates of Branch for 1988 plus charges for a 5/8 x 3/4 inch meter to serve Groom's tenant.

Applicant's tariffs require billings for all water service provided. Applicant's metered tariffs contain quantity rates in hundreds of cubic feet but many of its meters register in gallons. Applicant's billings contain frequent and recurring errors. Applicant did not challenge customer testimony that it did not respond to customer requests for billing adjustments based on its incorrect billings; nor did it correct its errors. If applicant is unable to bill correctly, the billing function should be farmed out to another utility, a bank, or other provider of such services.

William J. B. Steele, an individual, testified on incorrect billings by applicant. A copy of some of his bills shows that they do not contain the information required on the billing forms shown in applicant's old Rule 5 or in its revised Rule 5. Applicant should incorporate the text of tariff sheets 130, 131, and 132 on appropriate forms issued by it and file revised tariff form sheets with the Commission.

Replacement of meter registers reading in gallons to meters registering in cubic feet may reduce the frequency of some billing errors. The rates adopted in this decision simplify the metered tariff by adopting a single quantity rate and phase out lifeline rates in conformity with the water rates design policy set forth in D.86-05-064. The adopted rates are shown in Appendix A of this decision.

Applicant claims it requires the services of a contractor at \$22.50 per hour for service turn-on and turn-off work and that the \$10 charge authorized in Rule 11.C of its tariffs is insufficient. Under Resolution W-3396 dated May 11, 1988 the Commission filed three revised uniform tariff rules for a number of smaller utilities, including applicant who failed to make required filings to conform with a Public Utilities Code change.

Applicant's revised Rule 11 did not contain a change in its reconnection charge. After notice, a disconnection may be made along with any other routine operation of the system. District's engineer manager testified that a routine meter change could be accomplished in less than a half hour. Shutting off service or if necessary shutting off and locking a service should take a few minutes. Applicant does not require the services of a contractor to provide notice to a customer or to cut off a service. Applicant's rationale for departing from the utility standard for reconnection charges is not convincing and will not be approved.

Operating Expenses

Purchased Power

Based on 1987 pump tests on applicant's wells, 1987 water sales were equal to approximately 12.5% of production. Applicant estimated purchased power expense of \$3,800 for 1988 on the assumption that it would receive funding to make a field survey to determine whether major leaks and/or unauthorized diversions were causing its excessive purchased power expense. For 1989 applicant's original purchased power estimate dropped to \$830 based on pumping costs to produce its water sales volume plus 15% for unaccounted for water and for operation of a booster pump. Branch's 1989 estimate is \$1,230 for annual purchased power expense using the same methodology as applicant. Branch notes that applicant's 1989 estimates inadvertently omits Southern California Edison Company's (SCE) customer charges.

Applicant now argues that its 1989 estimate should be increased to \$4,640 because emergency rate relief was not granted and a complete check of the system had not been made due to a lack of funds. Branch argues that applicant failed to amend its application to reflect these additional expenses which change its

request from a 348.3% increase to a 400% increase.<sup>1</sup> Public Utilities Code § 454 and Rule 23 of the Commission's Rules of Practice and Procedure require an amendment to the application and additional notice to seek further increases. In this proceeding we will follow Branch's methodology updated to reflect SCE's rates as of February 1, 1989 to provide water to 23 customers.

Notwithstanding our refusal to rubberstamp unreasonable rates, applicant is not without recourse in reducing its expenses. Applicant's purchased power expense can be reduced by locating large system leaks. Applicant can further increase revenues if it finds illegal diversions and back bills on an estimated basis for such diversions and, if necessary, takes legal action to collect on those bills. Applicant should look for standing water and water softened roadways when driving through the service area. It should use a pipe locator to determine whether unauthorized service lines are tapping its mains and determine the source of water to irrigated lands in and adjacent to its service area. It can look for large areas of green uncultivated vegetation as starting points to locate the source of water losses on the system. Applicant should file a report with the Director of CACD on the results of its completed survey within 90 days from the effective date of this decision.

Applicant has paid thousands of dollars for wasted water production because it will not survey its small system to reduce unaccounted for water on its system. Its ratepayers should not be saddled with those excessive costs. Furthermore, applicant should investigate the relative savings of power costs versus the cost of replacing its inefficient pumping equipment.

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1 Granting an increase to offset those increased expense estimates would increase rates by about 440%.

The judgment in the Brite Basin adjudication allows for court approval of a stipulation permitting new pumpers to extract up to 3 AF of water per year from the basin. Only a limited area can be irrigated with that quantity of water. Applicant should ascertain whether an excessive amount of land is being irrigated compared to producers' water rights.

Applicant's revenues are adversely affected if more individuals in its service area produce their own water and applicant should not actively encourage this. Applicant should protect its system from contamination from individuals operating their own wells who are also connected to its system by requiring those customers to install an approved backflow protection device or to maintain an air gap separation of the two supplies.

Employee Labor

Applicant's estimate is \$2,000 per year, the Branch's estimate is \$1,080 for employee labor. Branch concurs with applicant's estimate of 7 1/2 hours per month for operating maintenance labor including 3 hours for routine maintenance, 2 hours for meter reading, and 2 1/2 hours for well maintenance.

The differences in estimates are due to the hourly compensation rate used, namely \$22.50 for applicant and \$11.50 for Branch. Applicant is paying that cost for a maintenance man engaged as an independent contractor. Applicant does not pay payroll taxes or fringe benefits for him. Branch's hourly wage estimate is based on a 1986 pay scale study of five southern California utilities, updated for labor escalation charges. Branch's study considers plant maintenance, meter reading, storekeeping, and utility person classifications. Applicant claims it can not engage a worker at the Branch recommended pay scale. It took two years to find the knowledgeable workman it uses.

The service area is a rural agricultural area. It requires use of a four wheel drive vehicle to traverse the service area when the ground is wet or covered with snow. Applicant



requires skilled part-time labor to carry out its maintenance functions. Applicant's estimate for maintenance work is reasonable.

Applicant should locate all meters and move or install meter boxes on the surface of stable ground at a standardized distance from edges of roadways. It is not productive to continually dig out meters from fields. Meter relocations would make it easier to identify service leaks or leaks in meter fittings. To further expedite meter reading, all registers should be standardized to read in cubic feet.

One of the customers furnished consumption readings billed by applicant which are relatively high during colder seasons and low during warmer seasons. The readings may be poorly estimated or poorly read. Applicant's estimate for meter readings is excessive. Applicant does not require the services of a contractor for meter reading. The total amount adopted for employee labor is \$1,680.

#### Materials

Branch used more up-to-date information than applicant in estimating the weighted average cost for materials. We adopt Branch's estimate.

#### Transportation Expense

Applicant allocated all out-of-pocket vehicle expense to itself for a truck used in utility operations and for other business or personal uses. Branch's estimate is based on a 20% allocation of such expenses to applicant. Both applicant and Branch estimates include the \$240 for monthly round trips between the service area and Bakersfield for supplies.

The Branch estimate is reasonable and will be adopted.

#### Office and Management Salaries

The estimates of office salaries are \$3,900 for applicant and \$1,350 for Branch. Their respective estimates for management salaries are \$300 and zero. Mrs. Groom does the billing and

bookkeeping at her home in Huntington Beach. There is no utility office in the service area. Applicant's estimate includes 8 hours per month for billing, 16 hours per month for bookkeeping, and 2 hours per month for handling complaints, all at \$12.50 per hour. Branch examined applicant's records and found that applicant's books are not kept in accordance with the Uniform System of Accounts for Class B, C, and D water utilities; the only recent book entries shown were for recorded revenue and purchased power. There were no records for 1984, 1985, and 1986. Applicant did not file required annual reports with the Commission for those years; its 1987 and 1988 annual reports were filed late and are incomplete. Branch reduced applicant's office salary estimate by 12 hours per month. Branch calculated office payroll at \$8 per hour.

Branch testified that the quality of work being performed by applicant's owner does not warrant compensation for management services. Applicant's owner does not live in the service area; she has neglected company operations to the extent that she does not even know whether or not a property is served from the utility system or not.

Applicant proposes to change from bimonthly to monthly billing in light of the magnitude of increases requested. At the rates authorized in this decision that change is reasonable to lessen the impact of higher bills on applicant's customers. However, billing and posting for 23 bills per month and handling opening and closing applications and billings should not take 8 hours per month. Apparently applicant does not use a table for calculating quantity charges and the level of errors in its billings is not acceptable. As noted above applicant should consider contracting out billings and bookkeeping if she can not keep adequate records, including water production and water sales records. We find that the total level of expenses for office salaries and management salaries estimated by Branch are reasonable

for the scope of work required by applicant. If applicant billed correctly, the level of customer billing complaints, and the associated expense would decline markedly.

#### Uncollectibles

Applicant and Branch both used a 0.5% level of revenues in computing uncollectible expense. It is reasonable to use that level of uncollectible expense for ratemaking purposes. It is probably low since applicant permitted one customer to fall three years in arrears before it turned off that service. Apparently, other customers are not paying their bills; in some cases because applicant does not know and has not pursued whether an individual(s) was obtaining water from its system. It is unreasonably discriminatory to permit some customers to avoid paying their bills. Permitting bill avoidance threatens applicant's survival. We will require applicant to submit the results of a survey of losses and unauthorized use of water from the system to the Director of CACD within 90 days from the effective date of this decision. Applicant should meter its sources of supply and record the quantity of water produced and the quantity of water sold on a monthly basis.

#### Rental Expense

Applicant's owner has designated an area in her barn on her Tehachapi residential property as a storage area. Branch found one meter stored in the barn. Branch proposes to reduce the \$600 expense requested by applicant for rental expense to \$300 based on the level of expense incurred by other small utilities.

The \$300 level is a reasonable rental allowance for the storage area and for the partial use of an office area in the Huntington Beach residence of applicant's owner.

#### Office Supplies

Since we concur in applicant going to a monthly billing cycle, we adopt applicant's estimates. The Branch estimate is based on continuation of the bimonthly billing cycle.

### Professional Services

The Branch witness reduced applicant's annual estimates for monthly accounting services by \$450. He included his estimate for bookkeeping work under office salaries.

Applicant's operations do not require the monthly services of an accountant. The reasons for applicant's lack of records is unclear. If bills were paid by check rather than in cash, payments could be readily posted. Copies of lost checks could be obtained from applicant's bank. The needed bookkeeping could be done by applicant's owner or more rapidly by a service. The Branch professional services estimate is reasonable.

### Insurance

Applicant has not carried insurance for its operations. On October 19, 1987, applicant obtained a letter quote of \$2,130 for liability insurance on its operations. The Branch witness believes that cost would impose an excessive burden (almost \$90/customer) on the few customers served by applicant.

Furthermore, Branch questions whether applicant would acquire the insurance if the requested expense was allowed in this decision.

We will not include an insurance allowance in the adopted estimates at this time. If the present operator of the system is a contractor, he may carry his own worker's compensation insurance; however, he is not required to do this for the benefit of the utility. We recognize the potential burden of insurance costs on applicant's customers. However, insurance is a legitimate utility expense. We require additional information on insurance expenses from applicant. Applicant may submit a reasonable number of insurance bids defining the coverages proposed and related costs for review by CACD. With the concurrence of the Director of CACD we would consider an advice letter offset for insurance. If an offset is authorized applicant must keep the insurance in force or terminate the offset. If an insurance offset is authorized, the Director of CACD should receive notification from the carrier of

the effective date of the policy and of any termination of the coverage.

General Expense

We adopt applicant's estimate to include increasing costs for water testing and for HD permit fees. Branch based its estimates on applicant's recorded general expenses for 1987 after a review of general expenses incurred by three other small water companies and on its assessment that applicant had not justified the increase. Applicant cited higher costs in its testimony. State and local HDs are applying stricter testing standards on water utilities. Applicants' estimate is reasonable.

Depreciation Expense

Applicant's straight line remaining life accrual is based on its restatement of the reserve for depreciation, proposed utility plant additions, and on its remaining life estimates.

Branch began with the stated original cost of plant and reserve for depreciation at the time of the original transfer of the system; adjusted those amounts to reflect recorded plant additions and retirements, added depreciation accruals at the accrual rates last authorized by the Commission. Branch then prepared a straight line remaining life depreciation study and derived a 3.1% composite accrual rate.

Branch eliminated applicant's proposed additions of \$800 for telephone equipment and \$1,500 for office furniture from its calculations because Mrs. Groom informed Branch that she had not installed special telephone equipment. Thus, it should not be considered in the adopted utility plant, depreciation expense, or depreciation reserve. Mrs. Groom reclassified the used and expensive desk in her Huntington Beach home as utility property and added costs for a chair and a file cabinet.

We will increase Branch's depreciation expense estimate by depreciating \$300 for office furniture over 10 years. We have adopted an estimate of 14 hours per month for office work by

its review; and, with Commission concurrence, assist applicant with an advice letter to eliminate the insurance surcharge and incorporate insurance costs in rates, primarily in service charge rates to recover that fixed expense. We will require submittal of proof of insurance in applicant's advice letter filing.

The surcharge collected for insurance purposes will be subject to partial refund if the annual insurance cost is less than \$2,130, and refunded if insurance is not obtained and kept in force. Applicant's policy shall provide for its carrier to notify the Director of CACD of the dates the insurance goes into effect and of its renewal or cancellation dates. If no insurance is in force, applicant's rates will be reduced to those shown in Appendix A, without a surcharge.

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applicant. On a judgmental basis, 20% of the cost of office furniture should be allocated to applicant's operation.

Taxes

There is no issue with respect to taxes other than income. The amount of \$250 is adopted.

Income taxes are based on income and expenses and on the presently effective state and federal tax rates. Applicant understated the minimum 1989 California Corporation Franchise Tax which is \$600 not \$200.

Rate Base

Utility Plant

The amount of utility plant included in the adopted rate base increases Branch's estimate by \$300 for office furniture as discussed above.

We will disallow applicant's \$12,674 claim for water rights as set forth below.

On December 9, 1970, in Kern County Superior Court Case 97211, the Court determined the base water rights of the parties to extract water from the Brite Basin Area annually to prevent overdrafting in that basin. The stipulated judgement in the case shows that Tehachapi Mountain Land and Water Co., a California Corporation was awarded a base right to extract 235 AF of ground water per year from the basin. Water rights were established based on users' beneficial use of water for five consecutive years after commencement of overdraft in the Brite Basin "as to which there has been no cessation of use by that party during any subsequent period of five consecutive years, both prior to the commencement of this action." The judgment based on District's evidence was not contested by any of the defendants, including Tehachapi Mountain Water Service who did not even appear at the trial. The natural annual safe yield of ground water extracted from the Brite Basin was then established at 500 AF. Pumped water may not be exported from the basin.

D.78094 dated December 15, 1970 declared Tehachapi Mountain Water Service to be a public utility subject to Commission jurisdiction. Ordering Paragraph 7 in D.78094 ordered the utility to:

"...file a report setting forth in detail a determination of the original cost, estimated if not known (historical cost appraisal) of the properties used and useful in providing water service and also the depreciation reserve requirement applicable to such properties. The report shall designate the items which are supported by vouchers or other like documentary evidence and which items are estimated, and shall show the basis upon which any such estimates were made."

D.89823 which authorized the sale of the utility to Jetton and Groom in 1979, stated that the filed annual report for 1977 showed that the original cost of the system was \$50,228 and the reserve for depreciation was \$32,902, resulting in a net book cost of \$17,326 excluding water rights. Thus the sale price of \$30,000 exceeded the original plant cost net of depreciation and contributions by \$12,674. D.89823 authorizing the sale states that:

"...the attorney for seller advised the Commission staff...that 235 AF of adjudicated water rights in the Brite Basin, having a substantial value between \$160 and \$200 per AF, are included in the sale; absent the water rights applicant would have to enter into a pooling arrangement with District and pay District for each AF pumped; therefore the water rights are an asset to the utility."

But, D.89823 also states that:

"...purchasers understand that rates will be based on the depreciated original cost of the plant, excluding contributed plant, and not on



the purchase price. This matter has been discussed by telephone by the Commission staff with Purchaser Groom."

The decision further states that:

"...[t]he authorization herein granted shall not be construed as a finding of the value of the value of the rights and properties herein authorized to be transferred nor as indicative of the amounts to be included in proceedings for the determination of just and reasonable rates."

Applicant relies on the latter quote as a basis for relitigating the issue of inclusion of water rights based on equating the difference between net depreciated utility plant and the purchase price for the system as the value of applicant's water rights.

That quote does not provide a basis for rearguing the issue absent any new facts; it permits the Commission to not recognize certain values for rate making purposes.

For rate making purposes, applicant made no showing that funds were expended in defending or obtaining water rights by applicant or its predecessors in interest. Groom and Jetton acquired all of the water company assets at a purchase price which exceeded depreciated plant costs by \$12,674. After the subsequent system transfer, Mr. Groom signed Advice Letter 5 for a 100% general rate increase. Applicant's rate base of \$12,023, in that advice letter does not reflect the proposed water rights valuation of \$12,674 which applicant seeks in this proceeding.

Absent a showing of water rights in applicant's original appraisal or of subsequent costs, we will not allow inclusion of any water rights costs in rate base. The value of water rights in the Brite Basin is likely to be far lower than values in the other basins which are still overdrafted since water exports from the Brite basin are not permitted. Value comparisons for water rights do not serve to establish utility plant costs for rate making

purposes absent a sale or lease of those rights. While we have assigned no dollar value for applicant's water rights, those rights are used and useful assets. They may not be sold, leased, or encumbered without authorization from the Commission.

The payment of \$12,674 in excess of depreciated assets is a water plant acquisition adjustment defined in Section 100.5 of the Uniform System of Accounts for Class D water utilities, in effect at the time of the sale of the system. That account description is now found in Account 114 in the Uniform System of Accounts for Class B, C, and D water utilities adopted by D.85-04-076 and made effective on January 1, 1985.

Reserve for Depreciation

Applicant's consultant testified that applicant's annual report contained no statement of the reserve for depreciation, its annual accrual was not earned. Therefore, the consultant believes his depreciation reserve study is the best indicator of the reserve. Applicant's prior rate showing in Advice Letter 5 reflected a loss. The rates authorized as a result of that advice letter were designed to yield a 4.6% rate of return. The consultant concludes that ratepayers have not contributed to applicant's depreciation expense through rates yielding losses rather than a reasonable level of earnings. Through use of longer lives in his study, the consultant derived a 1988 depreciation reserve of \$33,971, which is \$19,525 less than that derived by Branch.

The Branch witness began with the reserve for depreciation accepted in D.89823, added accruals on depreciable utility plant in service at the 3.1% composite depreciation rate derived from applicant's earlier depreciation study and made adjustments for plant retirements.

Applicant did not seek rate relief for seven years. It can not now reconstruct a reserve to recapture past losses and/or failures to earn past depreciation accruals by increasing its rate

base at the expense of its present ratepayers. Applicant did not show that there was a gross underestimation of plant lives in the past which might justify a revision of the reserve. On the contrary, this record shows that the plant is substandard and poorly maintained. Either the distribution system leaks like a sieve and/or wholesale water diversions from the system are occurring. If funds were available, it would be desirable to replace most of the system. There is no basis for applicant's reserve adjustment. We adopt the Branch estimate adjusted for the office furniture accrual discussed above.

#### Working Cash

Both applicant and Branch used a simplified method of calculating working cash assuming bimonthly billing.

Differences in working cash reflect operating expense estimates. The adopted working cash uses the simplified methodology for monthly billings.

#### Rate Base Summary

The following tabulation shows the 1989 rate base estimates of applicant, Branch, and the adopted rate base which were discussed above:

#### Rate Base Test Year 1989

<u>Item</u>	<u>Applicant</u>	<u>Branch</u>	<u>Adopted</u>
Average Plant	\$84,056	\$71,532	\$71,832
Less Avg. Depr. Resv.	37,505	56,781	56,826
Less Advances	0	0	0
Less Contribution	0	0	0
Plus Working Cash	2,660	1,780	1,550
Plus Mat. & Supp.	<u>0</u>	<u>0</u>	<u>0</u>
Avg. Depr. Rate Base	\$49,210	\$16,531	\$16,556

### Rate of Return

Applicant argues a 13.5% rate of return would be reasonable if good service was being provided by applicant. However, at proposed rates applicant seeks a return of 10.8%. Applicant contends that a small utility like itself has greater risks than a large utility like SCE. It cannot go to the stock market for investment funds and it is difficult to obtain money for system improvements. Therefore, applicant must generate internally developed funds or rely on its owner for infusions of capital it is entitled to a return commensurate with its risk. Further, applicant asserts that its customers benefit from applicant being in the 15% Federal Income Tax bracket.

Branch recommends a 10.5% rate of return, the midpoint of a 10.25% to 10.75% range for small utilities recommended by the Accounting and Financial Branch of CACD.

We have given more weight to comparable rates of return for small utilities and for applicant's need to meet unforeseen contingencies than to the quality of its service in adopting the Branch-recommended rate of return of 10.5%. The Commission has previously considered poor service in establishing rates of return. Applicant's rate of return should not be higher than the rates of return of comparable utilities based on the poor quality of service and management dismissed in this decision.

### Rates

Commission rate design policy generally permits recovery of 50% of fixed costs in service charges. Applicant's existing service charges recover 74% of fixed costs. In the adopted rates we have incorporated most of the increase in quantity rates reducing the percentage of fixed costs recovered from service charges to 64.6%. However, we do not wish to increase quantity rates further at this time. The quantity rate of \$1.50 per hundred cubic feet adopted in this decision could make it uneconomic to continue certain irrigation uses. We wish to avoid worsening that

potential at this time since it will adversely impact revenues. Further, we are not convinced that many customers will request installation of smaller meters to reduce their service charges. Water pressures are low in the system. Switching to smaller meters could result in further reductions in pressure or flow volumes to customers who elect to be served through smaller meters.

Applicant has not restricted irrigation use during periods of peak demand at the expense of residential use. We will require applicant to submit a plan to the Director of CACD, within 90 days from the effective date of this decision, for curtailing irrigation during periods of heavy demand to ensure that domestic supplies are available at adequate pressures throughout its system, particularly in the upper portion of the service area. This will require applicant to monitor peak demand pressures and to schedule irrigation during off-peak periods. Applicant should explain what monitoring procedures it proposes to follow and maintain a log of pressure measurements and irrigation curtailments. If necessary separate services and meters for irrigation use to an existing customer may be installed. Applicant's revenues should be enhanced in determining billing for previously undetected water use and in undertaking necessary collection action(s) to recover estimated revenues for illegal water diversions.

Furthermore, applicant's revenues are likely to increase if the accuracy of its meters is improved.

Branch recommends that applicant be ordered to initiate meter testing to comply with Title VI of GO 103, and to inform Branch when all of its meters have been tested. There is an expense associated with meter testing, but in general, older meters needing repairs underrecord consumption, which results in a revenue loss to utility. For smaller meters the net cost to applicant for replacing older copper cased meters with new accurate plastic cased meters, may compare favorably with testing, repairing, and

reinstalling the older meters. There would be a positive salvage value for the older meters.

SDWBA

In spite of the need for major system improvements, applicant has never perfected the application for a SDWBA loan. The need for such improvements, now including the need for main replacements and enlargements, is increasing with time. Applicant should promptly consult with HD, District's manager, and/or a consultant to assess the scope of needed system improvements. Applicant should determine the potential availability of SDWBA funds or of other funds and take the indicated actions to secure funding for needed improvements. Applicant should furnish quarterly reports of actions it has taken in this regard to the Director of CACD.

Other

We concur with Branch's recommendation that applicant be ordered to correct its record keeping practices to conform with the Uniform System of Accounts for Class B, C, and D water utilities. Those revisions should be made and a report should be furnished to the Director of CACD confirming that the work has been completed within 90 days of the effective date of this decision.

Applicant should submit a meter testing schedule to the Director of CACD within 180 days of the effective date of this order to conform with Branch's meter testing recommendations, to change meter registers measuring gallons to cubic feet, and to meter installations as discussed above.

Applicant should install well production meters within 180 days of the effective date of this decision and notify the Director of CACD and Branch of the completion date of the installations. Applicant should submit monthly reports to the Director of CACD for one year after installation of production meters showing recorded production by well, total production, and water sales.

Applicant should install transient protection devices to protect its well pumping and booster pumps from lightning strikes which have caused system outages and it should install valves pursuant to GO 103 to segment the system and curtail the extent of outages. The installations should be completed within 270 days of the effective date of this decision.

Applicant should also obtain title to rights of way, or easements covering all of its system. A report on the completion of the work should be furnished to the Director of CACD.

Applicant's 1982, 1983, 1987, and 1988 annual reports all show that applicant operated at a loss for those years. It is unlikely that applicant operated at a profit between 1984 to 1986. In light of the many requirements discussed above to correct deficiencies in applicant's operations, we conclude that there is no purpose served in requiring applicant to file for a rate reduction for failure to bring supply up to the 250 gpm level by July 1982 as required by D.93037. Applicant has increased its supply from 30 gpm to 130 gpm in 1981 to 207 to 217 gpm in 1987. The latter amounts are adequate to meet all domestic requirements on the system. But that output range can not cope with the huge water losses and irrigation requirements applicant is experiencing. Therefore, we will require applicant to actively institute and monitor an irrigation scheduling procedure during the irrigation season to maintain adequate domestic supplies while it pursues methods for funding needed system replacements and repairs, eliminates unauthorized diversions, and otherwise takes substantial steps to reduce system water losses to a reasonable level.

We put applicant on notice that if it does not make a meaningful and successful effort to improve service we will consider taking action under Section 855<sup>2</sup> to appoint a receiver.

Findings of Fact

1. The water distribution system originally installed to provide service to applicant's rural service area was substandard. It contained thin walled pipe inadequately protected from corrosion, lacked necessary valves to segment the system, and contained an excessive length of undersized main.

2. Applicant has not complied with repeated Commission orders to connect its Well 3 to the system to increase the system water supply to 250 gpm.

3. Applicant has not restricted irrigation use of water during periods of peak demand. Applicant's failure to control irrigation use has contributed to outages or extremely low water pressures for residential service in portions of its service areas.

4. Applicant has not made suitable arrangements for customers to advise it of emergency conditions. Applicant's owner

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2 "855. Whenever the commission determines, after notice and hearing, that any water or sewer system corporation is unable or unwilling to adequately serve its ratepayers or has been actually or effectively abandoned by its owners, or is unresponsive to the rules or orders of the commission, the commission may petition the superior court for the county within which the corporation has its principal office or place of business for the appointment of a receiver to assume possession of its property and to operate its system upon such terms and conditions as the court shall prescribe. The court may require, as a condition to the appointment of such receiver that a sufficient bond be given by the receiver and conditioned upon compliance with the orders of the court and the commission, and the protection of all property rights involved. The court shall provide for disposition of the facilities and system in like manner as any other receivership proceeding in this state." (Added Stats. 1980, Ch. 1078.)



is not in touch with what is happening in the system. She has not taken timely action to restore interrupted service. She has not notified the Commission and HD about system outages or notified her customers of scheduled outages. She is not in the Tehachapi area for prolonged periods of time.

5. Applicant's billing errors are at an unacceptable level. Applicant is not billing in compliance with its filed tariffs. Applicant's billing forms are not in accord with its filed Rule 5.

6. Applicant does not bill all persons supplied with water from its system, including a tenant in a home owned by its owner. Applicant has not taken reasonable actions to collect on its delinquent bills.

7. The use of 1987 average consumption provides the best information available for company quantity sales.

8. The use of 23 customers for computing service charges on the basis described above is reasonable.

9. Applicant has not complied with GO 103 for periodic testing of the accuracy of its meters. The registers of some of applicant's meters read in gallons; they should read in cubic feet consistent with the quantity billing units in applicant's metered tariff schedule.

10. The level of unaccounted for water is grossly excessive and indicative of neglect in operating and maintaining the system.

11. Use of an unaccounted for water level of 15% of sales 1987 pumping tests, and present SCE rates provide a reasonable basis for determination of purchased power expenses for this proceeding.

12. Applicant does not meter its sources of supply or maintain production and monthly sales records.

13. There is a potential for contamination due to cross connections between applicant's system and privately owned sources of supply. There is a potential for contamination due to backflow due to system failures.

14. The compensation level proposed by applicant for system operation and maintenance work and the compensation level proposed by Branch for meter reading, customer notices, turn-ons and turn-offs provides a reasonable allowance for employee labor expense.

15. Branch's use of more up-to-date information than applicant used yields a reasonable weighted average for materials expense.

16. Expenses for a truck used for utility operations and for other purposes should be allocated by use. Branch's estimate meets that criteria and should be adopted for transportation expense.

17. Branch's estimate for office and management salaries are reasonable for the scope of work required for applicant's operations. Applicant is deficient in record keeping, billing, and management of the company.

18. A level of 0.5% of revenues is reasonable for uncollectible expense.

19. A comparison of rental allowances for applicant and for other small utilities provides a reasonable basis for establishing rental expenses for applicant in a non-arms-length determination.

20. Office supply expense should reflect monthly billing by applicant.

21. Applicant's operations do not require the monthly services of an accountant.

22. Applicant needs further justification for establishing a reasonable allowance for insurance expense.

23. General expenses should include increased expenditures for water testing and HD permit fees.

24. Applicant did not show that any funds were expended by it or by its predecessor in interest in defending or acquiring water rights.

25. An allocation of the cost of office furniture should be included in rate base.

26. Applicant's proposed restatement of its depreciation reserve is inconsistent with the straight line remaining life method. The substandard condition of the distribution system does not provide physical justification for use of longer service lines.

27. The working cash allowance should reflect adopted expenses and monthly billings by applicant.

28. Applicant's allowable rate of return should be comparable with that authorized for other small utilities.

29. The percentage of fixed costs recovered from service charges will be reduced from 74% at present rates to 64.6% at authorized rates. The lifeline quantity rate will be eliminated.

30. The pumping equipment on the system is not protected from lightning strikes.

31. Applicant did not develop a water supply of 250 gpm by July 31, 1982.

32. Applicant did not subsequently reduce its rates as required by Commission order.

#### Conclusions of Law

1. Applicant should assess the scope of needed system improvements and the potential availability of SDWBA funds or of other funds to construct those improvements. Applicant should take the indicated actions to secure funding for needed system improvements. Applicant should furnish quarterly reports of actions it has taken to secure funding for system improvements to the Director of CACD beginning 120 days from the effective date of this decision.

2. Within 90 days from the effective date of this decision, applicant should submit a plan to the Director of CACD for curtailing irrigation during periods of heavy demand as discussed above to ensure that domestic supplies are available at adequate pressures throughout its system.

3. Within 15 days after the effective date of this decision, applicant should provide each of its customers, the Director of

CACD, and HD with a telephone number(s) to report emergency conditions and applicant should make suitable arrangements to respond promptly to emergency conditions.

4. Applicant should promptly notify the Water Utilities Branch in Los Angeles and HD of system outages and should routinely notify its customers of scheduled outages.

5. Within 30 days from the effective date of this order, applicant should report to the Director of CACD the steps it has taken to bill its customers correctly. It should specify what steps it has taken to identify all users on its system, bill, and collect for all water service provided from its system. Subsequently four quarterly reports should be filed summarizing the results achieved in billing and collecting for all water supplied from its system.

6. Applicant should submit revised forms by advice letters discussed above within 30 days from the effective date of this decision.

7. Within 180 days from the effective date of this decision, applicant should submit to the Director of CACD a schedule for testing its meters, change meter registers, and relocate meter installations as discussed above.

8. Within 90 days after the effective date of this decision, applicant should revise its bookkeeping practices to conform with the Uniform System of Accounts for Class B, C, and D water utilities. It should file a report with the Director of CACD confirming that the corrections have been completed.

9. Within 180 days from the effective date of this decision, applicant should meter its sources of supply, maintain production and monthly sales records.

10. Applicant should notify the Director of CACD, HD, and all customers with dual sources of water supply to install an air gap or backflow prevention device to prevent contamination by backflow into its system.

11. Applicant should not add customers to its system to any premises not previously served without further order of the Commission. This requirement should not prevent installation of a new service if needed to insure compliance with irrigation service limitations.

12. Within 90 days from the effective date of this decision, applicant should survey its system, as discussed on page 12 above (in the section titled "Purchased Power") to reduce the volume of unaccounted for water on its system and it should file a report on the results of its study with the Director of CACD.

13. Operating revenues should reflect service charges for larger meters used in the system and billings to the rental property owned by Mrs. Groom.

14. Excessive purchased power costs caused by applicant's failure to construct, operate, and maintain its system properly should not be adopted for ratemaking purposes.

15. Income taxes should be based on the rates and minimum State tax now in effect and on adopted expenses.

16. Applicant has not adequately justified an allowance for insurance expenses in this proceeding.

17. Applicant should not be authorized to restate its reserve for depreciation to secure additional rate base or to base its depreciation accruals on the restated reserve. The physical condition of applicant's system does not warrant an increase in service lives.

18. No allowance for water rights in applicant's rate base should be authorized since applicant did not show that it or its predecessor incurred costs in defending or purchasing water rights. The value of water rights does not have any bearing on determining applicant's rate base. Applicant should book a \$12,674 acquisition adjustment.

19. The water rights are used and useful in applicant's operations. They should not be transferred, leased, or encumbered without an order of the Commission.

20. The plant cost and expenses associated with use of applicant's truck and office equipment should be allocated where those facilities are used for non utility purposes.

21. The rates set forth in Appendix A are just and reasonable for the future. Applicant's existing rates insofar as they differ from those rates are unreasonable.

22. Applicant should not now be required to reduce its rates. Reductions would prevent implementation of needed remedial measures by applicant.

23. Applicant should install well production meters within 180 days of the effective date of this decision and notify the Director of CACD of the completion date of the installations.

24. Applicant should submit monthly reports to the Director of CACD for one year after installation of production meters showing recorded production by well, total production, and water sales.

25. Applicant should install transient protection devices to protect its well pumping and booster pumps from lightning strikes which have caused system outages and it should install valves pursuant to GO 103 to segment the system and curtail the extent of outages. The installations should be completed within 270 days of the effective date of this decision. In addition applicant should obtain title to rights of way, or easements covering all of its system. A report on the completion of the work should be furnished to the Director of CACD.

26. It is unlawfully discriminatory for applicant not to bill or to seek to collect for all water service on a consistent basis.

27. Due to applicant's urgent need for additional revenues the decision should be made effective today.

ORDER

IT IS ORDERED that:

1. Tehachapi Mountain Water Co. (applicant) is authorized to file on or after the effective date of this decision the revised rate schedules for 1989 shown in Appendix A. The revised schedules shall apply to service rendered on and after five days after the date of filing.
2. Within 270 days of the effective date of this decision, applicant shall install transient protection devices to protect its well pumping and booster pumps from lightning strikes which have caused system outages and it shall install valves pursuant to GO 103 to segment the system and curtail the extent of outages.
3. Applicant shall start action to obtain title to rights of way or easements covering all of its system within 270 days of this effective date of this decision. A report on the completion of the work shall be furnished to the Director of the Commission Advisory and Compliance Division (CACD).
4. Within 180 days from the effective date of this decision, applicant shall submit a schedule for testing its meters, change meter registers and relocated meter installations as discussed above.
5. Within 180 days from the effective date of this decision, applicant shall meter its sources of supply; it shall subsequently maintain production and monthly sales records.
6. Applicant shall install well production meters within 180 days of the effective date of this decision and notify the Director of CACD and Branch of the completion date of the installations. Applicant shall submit monthly reports to the Director of CACD for one year after installation of production meters showing recorded production by well, total production, and water sales.
7. Within 120 days from the effective date of this decision, applicant shall file an initial report with the Director of CACD.

or backflow prevention device to prevent contamination by backflow into its system.

11. Applicant should not add customers to its system to any premises not previously served without further order of the Commission. This requirement should not prevent installation of a new service if needed to insure compliance with irrigation service limitations.

12. Within 90 days from the effective date of this decision, applicant should survey its system, as discussed on page 12 above (in the section titled "Purchased Power") to reduce the volume of unaccounted for water on its system and it should file a report on the results of its study with the Director of CACD. The initial filing may be extended for weather related delays as described under Item 4 of Comments on ALJ's Proposed Decision.

13. Operating revenues should reflect service charges for larger meters used in the system and billings to the rental property owned by Mrs. Groom.

14. Excessive purchased power costs caused by applicant's failure to construct, operate, and maintain its system properly should not be adopted for ratemaking purposes.

15. Income taxes should be based on the rates and minimum State tax now in effect and on adopted expenses.

16. Applicant has not adequately justified an allowance for needed insurance expenses in this proceeding. A further showing as discussed under the Insurance heading above should be promptly implemented to prevent refunding of all of the rate surcharge to incorporate insurance costs of up to \$2,130 in rates.

17. Applicant should not be authorized to restate its reserve for depreciation to secure additional rate base or to base its depreciation accruals on the restated reserve. The physical condition of applicant's system does not warrant an increase in service lives.



outlining the scope of needed improvements on its system, the availability of SDWBA Funds or of other funds to construct those improvements, and of its actions to secure such funds. Applicant shall subsequently file quarterly status reports.

8. Within 90 days from the effective date of this order, applicant shall submit a plan to the Director of CACD for curtailing irrigation during periods of heavy demand.

9. Within 90 days after the effective date of this decision, applicant shall revise its bookkeeping practices to conform with the list for Class B, C, and D water utilities. It shall file a report with the Director of CACD confirming that the corrections have been completed.

10. Within 90 days from the effective date of this decision, applicant shall notify all customers with dual sources of water supply to install an air gap or backflow prevention device to prevent contamination by backflow into its systems and furnish copies of its letter to the Commission and to HD.

11. Within 90 days from the effective date of this decision, applicant shall survey its system, as discussed on page 12 above in the section titled "Purchased Power"), to reduce the volume of unaccounted for water on its system and it shall file a report on the results of its study with the Director of CACD and with Branch.

12. Within 30 days from the effective date of this decision, applicant shall report to the Director of CACD the steps it has taken to correctly bill its customers. This filing shall specify what steps it has taken to bill and collect for all water service provided from its system. Subsequently four quarterly reports shall be filed summarizing the results achieved in billing and collecting for all water supplied from its system.

13. Applicant shall submit revised billing forms by advice letter within 30 days from the effective date of this decision.

14. Within 15 days from the effective date of this decision, applicant shall provide each of its customers, the Director of CACD

and the Kern County HD with a telephone number(s) to report emergency conditions and applicant shall make suitable arrangements to promptly respond to emergency conditions. Applicant shall describe those arrangements and shall provide notice of changes in procedures or numbers in its notices and filings.

15. Applicant shall promptly notify CACD in Los Angeles and HD of system outages and shall routinely notify its customers of scheduled outages.

16. Applicant shall immediately book a \$12,674 acquisition adjustment.

17. Applicant shall not add customers to its system to any premises not previously served without further order of the Commission. This requirement shall not prevent installation of a new service if needed to insure compliance with irrigation service limitations.

18. Applicant is not authorized to restate its reserve for depreciation.

19. Applicant shall not transfer, lease, or encumber its water rights without an order from the Commission.

20. Applicant is not required to reduce rates for failure to achieve an increase in supply to 250 gpm as required by D.93513.

21. Applicant is authorized to file offset advice letters to begin recovering the reasonable cost of the following items:

- a. Well production and other meters required by Ordering Paragraphs 5 and 6.

- b. Insurance, after meeting the guidelines mentioned in the opinion of this decision.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.

APPENDIX A  
TEHACHAPI MOUNTAIN WATER COMPANY

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered service, including that for Irrigation service.

TERRITORY

Tracts Nos. 2359 R/S and 2439 R/S, and vicinity, located five miles west of Tehachapi, Kern County.

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter.....	\$18.90	(I)
For 3/4-inch meter.....	24.80	
For 1-inch meter.....	28.85	
For 1-1/2-inch meter.....	36.00	(I)

Quantity Rates:

All water, per 100 cu.ft..... \$ 1.50

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

SPECIAL CONDITIONS

1. Combination residential and irrigation service may be terminated in the event that irrigation service is not curtailed upon request of the utility. In that event a separate service shall be utilized to provide domestic and irrigation usage.

2. The utility may schedule irrigation usage.

(End of Appendix A)

APPENDIX B  
TEHACHAPI MOUNTAIN WATER COMPANY

COMPARISON OF RATES

Metered Rate Service

<u>Per Service Connection</u>		<u>Per Month</u>
<u>Present</u>	<u>Authorized</u>	<u>Percent</u>
<u>Rates</u>	<u>Rates</u>	<u>Increase</u>

Quantity Rates:

First 300 cu.ft. or less per month	\$ 0.50	\$ 1.50	200.0
Over 300 cu.ft., per 100 cu.ft.	0.68	1.50	120.6

Service Charge:

For 5/8 x 3/4-inch meter.....	10.50	18.90	80.0
For 3/4-inch meter.....	13.50	24.30	80.0
For 1-inch meter.....	16.00	28.85	80.3
For 1-1/2-inch meter.....	20.00	36.00	80.0

A monthly bill comparison for a customer with a one inch meter is shown below:

<u>Usage</u> <u>00 cu.ft.</u>	<u>Present</u> <u>Bills</u>	<u>Authorized</u> <u>Bills</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$16.00	\$28.85	\$12.85	80.3
5	18.86	36.35	17.49	92.7
10	22.26	43.85	21.59	97.0
15	25.66	51.35	25.69	100.1
16.6 (Avg. Use)	26.75	53.75	27.00	100.9
20	29.06	58.85	29.79	102.5
30	35.86	73.85	37.99	105.9
40	42.66	88.85	46.19	108.3
50	49.46	103.85	54.39	110.0

(End of Appendix B)

## APPENDIX C

## TEHACHAPI MOUNTAIN WATER COMPANY

ADOPTED QUANTITIES  
Test Year 1989

Federal Tax Rate:	15%
State Tax Rate:	
Min. 1989	\$600
Uncollectible Rate:	0.5%

Expenses:1. Purchased Power

Southern California Edison Company	
Rate Schedule	PA-1
Effective Date of Schedule	2/1/1989
KWh Used	7,000
\$/kWh	0.08862
Charge	\$621
Service Charge	\$317
Customer Charge	\$392
Total Purchased Power	\$1,330

2. Insurance

0

3. Consumption

Total (Ccf.)	4,575
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4. Customers

5/8" x 3/4"	.....	1
3/4"	.....	1
1"	.....	15
1-1/2"	.....	6
Total		23

(End of Appendix C)