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Decision 91-06-047 June 19, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Mountain Charlie Water Works, Inc. for a general rate increase for water service of 258.6% in 1990.

ORIGINAL

Application 89-11-031
(Filed November 30, 1989)

Wester Sweet, Attorney at Law, for Mountain Charlie Water Works, Inc., applicant.
L. Keith Bieg, for the State Water Resources Control Board, interested party.
Don McCrea, for the Commission Advisory and Compliance Division.

I N D E X

OPINION

Statement of Facts

Background

Mountain Charlie Water Works, Inc. (Mt. Charlie) is a small Santa Cruz Mountains water system in Santa Cruz County, begun in the 1960 era by a retired Navy engineer as a proprietary system, soon expanded to accommodate neighbors, and later further expanded by the owner to provide water to his real estate developments in the area. The service area, today of approximate 2,000-acre size, is over an old abandoned logging tract threaded through by two paved-over logging roads which originate from Highway 17, on the Santa Cruz side of the summit, north of Scotts Valley. Mt. Charlie Creek generally bisects the area between the two roads, dropping approximately a thousand feet in less than two miles in very rugged terrain. Steep slopes and deep ravines in the mile-wide area between the roads conceal a maze of old logging trails, some of which are partially paved to provide access to residential structures, many in the over $300,000 range.

Its water supply is diverted from Mt. Charlie and Miller Creeks into receiving tanks where it is chlorinated and pumped up to a number of small storage tanks at higher levels, thence distributed by gravity flow and/or pressure tanks through distribution mains to individual residences. Because of the wild terrain, unstable hillsides, and winter storms, breakdowns are frequent. Some customers have installed their own holding tanks. Never constructed to our General Order (GO) 103 standards, service across the years has varied depending on location. Mains are undersized, cannot meet fire flow requirements, and there are few fire hydrants. Higher elevation homes have been especially subject to sporadic outages. The primary source of improvement funds has been from extension and connection fees. Nonetheless, despite the

rudimentary nature of the installation, until recent years and an influx of formerly urban residents, principally at the higher elevations, the system had provided acceptable "make do" service to most customers without regulation.[1] Today, the system serves 145 homes.

In the fall of 1987, after a long campaign to obtain support, about one-sixth of the customers filed a complaint, Case (C.) 87-09-008, regarding service, with the Commission. The utility ownership was involved in an internecine lawsuit which left the management in the hands of attorney Wester Sweet, its president. A second year of drought, the June 27, 1988 earthquake, and a severe electrical storm all served the system badly, drying up or reducing creek flows and damaging the system, resulting in severe and prolonged disruption of service. Mt. Charlie in recent years has not been profitable, and has relied upon "hook-up" fees charged for extensions and connections to make repairs as needed and to enable it to continue in operation. The Health Department imposed a new service moratorium which has cut off the connection fee source of funds for repairs. Continued drought into 1989, followed by the October 17, 1989 Loma Prieta earthquake (centered nine miles beneath the system's service center), devastated the system. During this period the Commission held local hearings and issued six interim decisions authorizing emergency measures including mandatory water conservation, extensive water hauling, balancing accounts with surcharges, and tank replacements (see Decision (D.) 88-09-071, D.89-01-018, D.89-03-058, D.89-09-028, D.89-11-030, and D.89-11-069 in C.87-09-008).

1 In 1972, at the prodding of Santa Cruz County authorities, the management of Mt. Charlie had approached the Commission seeking recognition as a public utility and staff guidance in some system construction work. This approach had been unsuccessful.

The initial 1987 complaint also questioned rates. Accordingly, our decision (D.87-09-032) recognizing utility status inter alia ordered management to provide full assistance to our staff in its conduct of an audit. Fragmentary accounting and financial records from before September of 1987 made an audit almost impossible, and when completed, of limited value. Records after September of 1987 had been maintained on a cash basis, not in compliance with the accrual method we prescribe in the Uniform System of Accounts. Auditing difficulties held up staff's report until May 19, 1989. Nonetheless, an outdated general ledger, federal tax returns (1984-1985), and an unaudited June 30, 1985 statement, coupled with field work, finally led to a determination, albeit not verified to any desired extent, that at the end of 1988 Mt. Charlie's utility plant in service was approximately $226,847. And based on actual 1988 operating revenues, collected and uncollected, and actual operating expenses, the audit indicated that for 1988 Mt. Charlie sustained an operating loss estimated to be not less than $8,300, and received no return at all on investment.[2]

2 In the fall of 1988, before completion of the staff's audit in 1989, Mt. Charlie had supplied staff and the administrative law judge (ALJ) with an eight-month (January-August 1988) printout of its checking account activity covering revenues and expenses paid in that eight-month period. This printout indicated average monthly revenues of $5,039 vs. average monthly expenses paid of $7,246. Some of the expenses paid were open to further investigation or question, but at least an average per month of $5,325 appeared on its face entirely reasonable. Thus, projected through for the full year 1988, the printout indicated operating losses of between $3,432 and $23,052 for the year, with no return on investment. This tends to support staff's subsequent audit report of losses and no return (see discussion of this printout with complainants' attorney in the 9/26/88 transcript, pp. 211-221, C.87-09-008).

The Captioned Application

The Mt. Charlie management then sought to rectify this financial problem and, with assistance of Water Branch Utilities Engineer Kachur, undertook preparation of a rudimentary application (in advice letter format) seeking a very substantial rate increase. Interrupted when much of its physical plant was either utterly destroyed or damaged in the October 17, 1989 earthquake, the utility nevertheless on November 30, 1989 filed the application, noting that in addition to the rate relief, heavy capital investment would be required to replace or repair system components.

By the captioned application Mt. Charlie asked for authority to increase its present rates $180,690, a 258.6% increase. Present rates consist of a minimum charge of $35 for the first 500 cubic feet of water or less per month, and a rate of $4.60 per hundred cubic feet (Ccf) for all usage over 500 cubic feet. The proposed rate would consist of a $64 per month service charge, and a quantity charge of $14.50 per Ccf for all water used.

On March 16, 1990, the Water Utilities Branch (staff) distributed its report on Mt. Charlie's application. This report takes exception to much of the application, and would continue to base rates on a minimum charge with a quantity charge for usage in excess of the minimum. Staff's proposal would be a minimum charge of $25 for the first 500 cubic feet or less per month, and a rate of $6.85 per Ccf for usage over 500 cubic feet.

A duly noticed public hearing was held before ALJ John B. Weiss the evening of March 28, 1990 in the C. T. English Middle School on Summit Road in the Santa Cruz Mountains above Los Gatos. Approximately 60 customers attended. Mt. Charlie presented evidence through Mr. Black, its accountant; Mr. Orozco, its water main consultant; Mr. Lew, its bookkeeper; and Mr. Sweet, its president. Staff presented evidence including its March 16, 1990

report through Mr. Kachur. At the conclusion of the hearing the matter was submitted.

Shortly thereafter, in attempting to prepare a draft decision, it became apparent to the ALJ that the information in the record on prior "hook-up" charges collected over the years was too fragmentary and inconclusive to use. As this evidence was necessary to determine an appropriate rate base, the ALJ by Ruling dated April 11, 1990 reopened the proceeding to permit distribution and return of questionnaires from the Mt. Charlie customers providing specific information. Responses were slow but by early June 1990, 86 replies were received and accepted into evidence as a late-filed exhibit. The proceeding was resubmitted for decision June 30, 1990.

Discussion

The principal problem confronting the utility and the Commission in this initial rate proceeding is to establish a rate base for Mt. Charlie. Unfortunately, during the 15 or so years prior to 1987 when it was determined to be a public utility, and therefore subject to Commission record-keeping requirements, Mt. Charlie retained few records, and what records it kept were scattered during ownership dissention after the death of its founder and subsequent lawsuits. Thus, our first task is to construct a rate base determination from what records we have been able to obtain.

The Rate Base

Mt. Charlie made its first attempt at an Annual Report filing with the year 1987, and in Water Plant in Service under Schedule B listed appropriate items totaling $394,211. Its 1988 Annual Report listing totaled $409,355. But neither report included any entries for Schedule C - The Reserve for Depreciation of Utility Plant. And neither report made any entry for Contributions in Aid of Construction in Schedule A. No report at all was filed for 1989.

Clearly the water plant in service in late 1989, when the present application was being prepared for filing, consisted of a large number of transfer and storage tanks, pumps, pumping structures, distribution mains, hydrants, meters, wells, some transportation and construction equipment, spare parts and materials plus land sites and access roads. Our staff, in the May 19, 1989 audit report by our Auditing and Compliance Branch, tacitly recognized this fact, and included a statement listing utility plant as of June 30, 1985 at $373,293, less accumulated depreciation of $155,537, for a net plant of $217,756. Staff qualified this by stating that while it had viewed the water plant, it was unable to verify the cost of the plant, or the depreciation reserve, because of the poor condition of the accounting records. Then, by adding verified capital additions between November of 1987 and the end of 1988, staff estimated the net utility plant in service at the end of 1988 to have been about $226,847.

Mt. Charlie's captioned application, filed in advice letter estimate sheet format, sets forth beginning of test year 1990 balances for average plant and depreciation reserve of $426,476 and $243,775, respectively. These were obtained, as testified by Mt. Charlie's graduate accountant witness during the March 28, 1990 public hearing, by taking the utility's tax returns for prior years, prepared by certified public accountants, and using the fragmented records available. After adjustments for additions and retirements, the accountant testified he obtained a balance of $490,706 (average plant $458,591) for the End of Year Plant in Service. Adjusting for depreciation expense (using .0702%), he stated he obtained a balance of $270,375 (average depreciation reserve $257,075) for the End of Year Depreciation Reserve. By taking the beginning of year balance for plant (less the land) of $426,476, deducting the beginning of year depreciation reserve of $243,775, adding back the land value ($79,500), plus

working cash ($17,967) and materials ($3,000), he obtained his proposed rate base of $221,723 used for the application.

But the major flaw of Mt. Charlie's proposed $221,723 concept of rate base (assuming we accepted the tax return and fragmentary record derivation) is that nowhere has any consideration been made of extension and "hook-up" fees collected from many of the consumers over the years. The overwhelming majority of regulatory commissions in the United States have taken the view that public utilities cannot be permitted to earn on contributed funds, and that such contributions must be excluded from rate base.[3] The general practice is that it is the duty of a water company to make connections and install the meter at the company's own expense. This expense then becomes a part of the monies properly chargeable to its capital account and is necessarily considered in establishing rates for water service. California has long adhered to this concept (Dooley v Peoples Water Co. (1913) 3 CRRC 948, 953-955).

The Water Branch staff, in its most recent report dated March 16, 1990, recognized this flaw in Mt. Charlie's application, but would adjust for it in too draconian a manner. Staff proposes to treat all utility plant in service prior to the Commission's assumption of jurisdiction late in 1987 as having been wiped out by these contributions. It would impute an arbitrary $5,500 average for each customer as a connection fee, thereby arriving at a

3 In 1 Priest, Principles of Public Utility Regulation, p. 177, it is said: "Court and Commission decisions holding that contributions in aid of utility construction must be excluded from rate base have been so uniform as probably not to require detailed citation." In essence the rationale is that it would be inequitable to require consumers to pay a utility a return on property which in virtually all cases they, not the utility, have really paid for. To allow a rate of return would provide the utility with recoupment of an investment it did not make.

contribution total which would far exceed the utility's plant estimates. Having disposed of all plant in service before September of 1987, staff would ascribe to plant in service only that equipment installed since Commission recognition. These new pumps, motors, small transfer tanks, piping, etc., would be valued based on staff's verified inventory, receipts available, and catalog data, plus two weeks' labor cost. Accordingly, staff proposes $16,950. Similarly excluding past depreciation reserves, it would limit the present reserve to $1,695 (10% of $16,950). Using the same simplified method for small water utilities described in Standard Practice U-16 (as was used by Mt. Charlie in making its estimate) but with staff's different expense estimates, staff calculated working cash to be $2,240. It also would allow only $1,000 value to Mt. Charlie's stock of materials and supplies (versus $3,000). Staff thus proposes a rate base of $18,495.

But staff's proposed rate base, based as it is upon an arbitrary imputation of $797,500 ($5,500 x 145 customers) to "hook-up" fees to wipe out all plant value existing in September of 1987 for rate base purposes, cannot be adopted. It cannot be supported by the evidence or equity. The testimony at the March 28, 1990 hearing, uncontroverted by any of the more than 50 customers present, was that the hook-up fee, when assessed, was substantially less; that only after a drought in 1979-1980 did it rise to $6,000, and then to $7,500, and that no more than five or six of such assessments were paid. The further testimony was that until the early 1970s, when the system was expanded beyond its initial core area on Pierce, Mt. Charlie, and Old Japanese Roads, there was no hook-up charge. Sweet testified that beginning about 1970 the initial hook-up fee for newcomers was $500. It was when the system mains were extended across to Hutchinson, Debbie, and Oak Flat Roads, that the fee expanded to $1,200, $1,800, and later to $3,000.

It was because this applicant's testimony could not in any reasonable way be reconciled with the imputation proposed by staff as to the amount of total contributions, that the ALJ reopened the proceeding for a survey of customers to ascertain the amount of contribution probably obtained. Questionnaires were mailed to each customer of record. Eighty-six responded. Of these, 76 represented identified properties and provided usable information as to dates and fees paid.[4] These responses were arrayed by connection number, location, year of connection, and amount purportedly paid. The remaining unrepresented connections were then arrayed against the previous array by location and assigned corresponding connection amounts to arrive at a total $321,038 for estimated contributions. This $321,038 was then used as follows in determining average plant to be used in obtaining the rate base:

4 Of the remaining ten responses, four as successor owners had no information whether their predecessor original owners had paid anything at all; three as estate administrators had no information; one represented a connection trade for easements; and two were original but unlisted properties reporting moderate payments. There were only two responses from properties connected before 1970. Interestingly, only nine responses reported payments between $5,000 and $7,500, thus corroborating Sweet's testimony of his recollection that not more than 10 to 12 paid at the high end of the payment scale.

Average Plant		
Water Plant in Service beginning 1988 (from Annual Report)		$409,355
Less Contributions (from survey analysis)		321,038
Plant in Service beginning 1988		88,317
Add Plant Additions 1988-1990 (Staff 3/16/90 Report)		16,950
Plant in Service End 1990		105,267
Average Plant in Service (88,317 + 105,267 ÷ 2)		$ 96,792
Average Depreciation Reserve		
Beginning Balance (56% of $96,792)[5]		$ 54,203
Average Plant in Service	$96,792	
Less Land Cost (Staff 3/16/90 Report)	6,510	
	$90,282	
Depreciation Expense (10% of $90,282)		9,028
End of Year Balance		63,231
Average Depreciation Reserve (54,203 + 63,231 ÷ 2)		$ 58,717
Rate Base Calculation		
Average Plant in Service		$ 96,792
Less Average Depreciation Reserve		58,717
Net Plant		38,075
Plus Working Cash		13,452
Plus Materials (Staff 3/16/90 Report)		1,000
Rate Base Adopted		$ 52,527

5 In Mt. Charlie's application, the ratio of the average depreciation reserve to the average plant was 56%. To obtain a reasonable "ballpark" estimate for beginning depreciation balance to be used in our rate base construction, the same 56% ratio was applied to preserve a reasonable balance.

Summary of Earnings

Table A shows test year 1990 estimates by applicant and Water Utilities Branch (staff), and adopted revenues, expenses, and rate base, utilizing an 11% rate of return. Significant differences are discussed below.

Table A

Summary of Earnings (Test Year 1990)

Items	Present Rate Estimates Staff	Present Rate Estimates Utility	Proposed Rate Estimates Staff	Proposed Rate Estimates Utility	Adopted Rate Estimates
Operating Revenues	$71,280	$69,870	$237,740	$250,560	$136,100
Operating Expenses					
Oper. & Maint.	90,800	140,527	90,800	140,527	113,487
Deprec. Expense	1,695	26,600	1,695	26,600	9,028
Taxes Other Than Income	5,146	6,250	5,146	6,250	6,133
Cal. Franchise Tax	800	0	13,029	0	693
Fed. Income Tax	0	0	32,807	0	1,014
Total Expenses	98,441	173,377	143,477	173,377	130,355
Net Revenue	(27,161)	(103,507)	94,263	77,183	5,745
Rate Base	18,495	221,723	18,495	221,723	52,527
Return on Rate Base	loss	loss	509.7%	34.8%	10.94%

(Red Figure)

Consumption and Operating Revenues

There are no production meters at any of Mt. Charlie's water sources. The connection survey revealed the existence of 145 metered connections to the system. The existing connection moratorium precludes additions at present. Staff's consumption estimates were based on the last two years' recorded metered consumption. Staff assumes consumption under the present multi-year drought conditions should remain depressed. The existing rate

design is based on a minimum service charge which includes the first 500 cubic feet, or less, per month, with an average usage charge per 100 Ccf above that. We believe this rate design is reasonably balanced under the conditions existing for this utility, and will retain that design. Staff projects 4.84 Ccf consumption per month per customer as an average. This is a very conservative allowance, and staff accordingly provided for consumption above 5 Ccf for a system average total of 2,440 Ccf for the year. This serves to bring the overall projected consumption up to approximately 4,787 gallons per consumer per month. This compares to an average monthly general use for mountain residents of about 5,000 gallons.

The Commission in D.86-05-064 established guidelines for rate design for water utilities. It called for the phasing out of life-line rates, allowed for reduction of multiple consumption blocks to a single block, and called for the recovery of up to 50% of fixed expense through service charges. Here, staff recommends that the rates continue to be based on a service-minimum charge, with a quantity charge for usage in excess of the minimum. The purpose of rate design is to insure a revenue stream adequate to meet the utility's expenses and provide a rate of return on investment. Here, conservation has reduced consumption already; and it is absolutely essential that the basic revenue stream be dependable and adequate. Expenses are fixed. Accordingly, we will adopt a service-minimum charge of $70 for the first 5 Ccf of water, or less, per month, and a rate of $5.25 per Ccf for all usage over 5 Ccf. This is estimated to produce annual operating revenues of $136,074.[6]

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6 145 customers x 12 = 1,740 billings/yr. x $70 = $121,800 (Basic)
over service-minimum = 2,440 Ccf x $5.25 = 14,274 (Overage)

Estimated Total Operating Revenue $136,074

Operating and Maintenance Expenses

Table B compares Mt. Charlie's and staff's expense estimates for test year 1990 and shows adopted amounts. Significant differences are discussed below.

Table B

Operating and Maintenance Expenses (Test Year 1990)

Items	Staff	Utility	Adopted
Operating & Maint. Expenses			
Purchased Power	$14,440	$ 16,780	$ 16,780
Purchased Water	0	8,400	0
Employee Labor	30,000	40,000	40,000
Materials	2,400	2,400	2,400
Contract Work	2,400	9,600	2,400
Transportation	2,400	8,400	5,700
Office Salaries	6,000	10,000	6,000
Management Salaries	10,000	10,000	10,000
Employee Benefits	4,800	4,800	4,800
Office Services & Rent	3,600	6,000	3,600
Office Supplies	1,000	2,400	2,400
Professional Services	3,000	6,000	3,000
Insurance	10,100	15,747	15,747
Rate Case Expense	660	0	660
Total	$90,800	$140,527	$113,487

Purchased Power

The utility's estimate increased its 1988-1989 Pacific Gas and Electric Company (PG&E) bills by 10% to provide for PG&E's anticipated rate increases. Staff also used the same 1988-1989, but reduced it by 20% as an asserted penalty for inefficient coordination between the many pumps and tanks which results in occasions of tank overflow with resulting waste of electric power. While installation of automated monitor systems, including float controls, for example, could help to reduce this wastage, the cost of such installations, including electric wiring between the tanks and their respective pumping stations (in some instances two miles distant in extremely rough mountain terrain), would require

substantial cash and labor investments as well as continuous maintenance. There is no money available at this time. However, the projected reconstruction of the entire system presently under study should provide for installation and financing recommendations for such controls. At present we will adopt Mt. Charlie's estimate for purchased power.

Purchased Water

We exclude the utility's estimate for hauling four truckloads of water monthly at $175 per load even though historically even under normal operations water has had to be purchased and trucked. A water hauling balancing account has been authorized to handle this expense for the present. Accordingly, staff's recommendation to disallow the utility's proposed item is adopted.

Employee Labor

Staff's recommendation provides 1-1/2 full-time maintenance personnel. However, in the September 1988 hearing of C.87-01-008, the same staff expert witness, after first commenting upon the difficulties of the Mt. Charlie terrain, and the vulnerability of the mountain system to damage, testified as follows:

> "I would say, however, that for a system of this size with this type of difficulty you could use four full-time people on staff, four full-time maintenance people doing nothing but repairing the system, reading the meters when that is necessary and attending to all necessary repairs and attending to a program to replace lines that age and maintaining and repairing the pumps, maintaining and repairing the electrical lines." (Tr. pp. 204-205.)

In its application Mt. Charlie provided for two full-time maintenance personnel paid at $10 per hour. We find this reasonable and adopt the utility's estimate.

Contract Work

The utility's estimate is partially based on earthquake damage repairs. As a balancing account was established to accumulate these costs, staff excludes the bulk of them. In the absence of any utility justification for more than the staff allowance of $2,400 under normal circumstances we adopt staff's estimate.

Transportation

Staff proposes $2,400 representing about 7,000 miles at $0.34 per mile. The utility initially sought $8,400 (representing 25,000 miles at $0.34 per mile, but at the hearing dropped its estimate to $5,700 (which at $0.34 per mile represents about 16,800 miles). This latter mileage would permit two vehicles each to drive 168 miles a week, or 33.6 miles each daily in this remote mountain area. Besides monthly meter reading and weekly monitoring tests, the present two maintenance men must drive to get to and from their respective work assignments around the system, spread, as the system is, over two lengthy, parallel ridges in very difficult country. They must also leave the area and drive down the mountain to obtain emergency repair parts, and materials and chemical supplies from Scotts Valley, Santa Cruz, Milpitas, and San Jose. In addition, there is supervisory and administrative mileage as well as major auto maintenance expense that is unquantified in the application or at the hearing. We will adopt applicant's revised estimate in the amount of $5,700.

Office Salaries and Professional Services

As the testimony at the hearing made clear, there are two elements provided in staff's estimates, $6,000 under office salaries, and $3,000 under professional services. The statement of Mt. Charlie's president at the hearing was that the utility pays Mr. Lew $100 weekly for providing bookkeeping and office services. Thus, this $5,200 annually is covered under office salaries, with a reserve of $800 annually for further miscellaneous expense as

needed. The $3,000 provided under professional services under staff's estimate is also adopted. While Mr. Lew is also an attorney, it was his testimony that: "Essentially, for the past few years I've only provided bookkeeping services," and "Working with the water company I'm not in the capacity of an attorney." (Tr. pp. 37 and 38.) The utility provided no explanation or justification for anything more.

Office Services and Rent

Staff's estimate disallows $2,400 for rental of employee living quarters not now used or contemplated for use in the near future. We adopt staff's estimate.

Office Supplies

The utility added 8% to its 1989 expenses. Staff's estimate was based on 12 mailings plus a paper and miscellaneous office supplies allowance. However, the May 1989 audit indicated expenses for postage, telephone, and office supplies totaling $2,382 in 1988. We find the utility's estimate more reasonable and will adopt its $2,400 amount.

Insurance

The utility asks $15,747 for liability, auto, and workers' compensation insurance costs. Staff reduced this figure to $10,100 on the assumption that the 1977 Dodge van used was the personal vehicle of the utility president. Sweet testified that the van was registered to Mt. Charlie and is being used by the utility. The 1989 audit report showed that the van was insured by the utility, and included in the utility plant vehicles (unspecified) as of June 30, 1985. We adopt the utility's estimate.

Rate of Return

Service from this mountain water system historically has been generally marginal or poor, particularly at the higher elevations, with frequent interruptions due to main breakages, pump failures, downed electric wiring, landslides, trees falling, and drought. Not originally constructed to GO 103 standards, mains are

undersized, exposed above ground or inadequately buried, inadequate for the widely varying system pressures, and unable to meet fire flow requirements. The rough terrain and topography will always hamper the system, regardless of management, maintenance, or availability of funds. It will always be an expensive system to operate.

Until recent years maintenance was poor and management not always responsive. Changes in maintenance personnel have helped. The October 17, 1989 earthquake compounded problems by destroying four of the five principal storage tanks and breaking mains. The smaller storage tanks installed in the emergency are inadequate as permanent replacements. It must be conceded that utility personnel responded in the emergency with extraordinary effort and hard work, but restoration of service in some areas took several months. Management clearly has not abandoned the system, but the legacy of inadequate investment and years of neglect will be costly to overcome. Engineering studies are underway, financed by surcharge funds; and the Montevina pipeline, financed by the Federal Emergency Management Administration and the State Office of Emergency Services, has been constructed to a point near the summit, bringing water from San Jose Water Company into the general area. Mt. Charlie has become a member of the Mountain Mutual Water Company, positioning itself to share in construction of a transfer pipeline to bring this reliable water supply to the Mt. Charlie system and companion systems in the summit area. This is a progressive step toward meeting the present and future needs of this utility. We adopt the 11% rate of return recommendation made by staff.

Comments on the Proposed Decision of the Administrative Law Judge

As provided by Public Utilities Code § 311, the Proposed Decision of ALJ John B. Weiss was served on the parties to this proceeding. No party submitted comment.

Findings of Fact

1. Mt. Charlie, a California water corporation, provides public utility water service to approximately 145 customers in the summit area of the Santa Cruz mountains west of Highway 17 in Santa Cruz County.

2. Started in the 1960 era as a proprietary water system, the system was gradually expanded, first to accommodate neighbors, and later to serve successively expanded areas.

3. While initially there was no charge to new customers to hook up to the water system, by approximately 1970 a hook-up fee was initiated which gradually increased over the years until the mid-1980s, when it reached a maximum of $7,500.

4. As the result of ownership and management changes, and incomplete record-keeping in the years prior to 1987, most plant in service records cannot be verified with regard to original cost and depreciation, and few records of hook-up fees survive.

5. Although initially engineered to provide service in difficult mountain terrain, at no time was the system constructed to GO 103 standards, leaving it today undersized with inadequately buried mains, and unable to meet fire flow requirements.

6. Despite inadequate design and construction, and poor maintenance in later years, until the mid-1980s and the current successive drought seasons, service to the majority of customers, especially at the lower elevations, was generally acceptable, although the system was plagued by increasingly frequent outages caused by main breaks, pump failures, downed electric wiring, falling trees, and landslides.

7. An influx of new owners coming from more stable urban areas and conditioned to regular metropolitan service standards, followed by a time when drought, earthquakes, and the bad fruit of past maintenance deficiencies coalesced, led to the filing C.87-09-008 and to Commission recognition and regulation.

8. In recent years Mt. Charlie has been run at an operating loss with no return on investment.

9. Mt. Charlie requests authority by the captioned application to increase rates by an estimated $180,690 or 258.6%, and to restructure its rate design to provide for separate service and commodity charges.

10. The adopted rate base is reasonably estimated at $52,527, derived from Plant in Service information taken from the utility's 1988 Annual Report, an estimate of consumer contributions for hook-ups projected from survey returns, and an estimate of Depreciation Reserve based on the ratio of reserve to plant taken from the utility's present application.

11. The adopted Summary of Earnings sets forth reasonable estimates of the levels of revenues and expenses.

12. A rate of return of 11% on the adopted rate base is reasonable.

13. The increase in rates authorized by this decision is expected to provide increased revenues of $64,820 or 90.9%.

Conclusions of Law

1. Staff's recommendation to retain a combined basic service and minimum charge, with a quantity charge for usage in excess of the minimum, should be approved.

2. The adopted monthly combined service and minimum charge of $70 for the first 5 Ccf of water or less, and a quantity charge of $5.25 per Ccf for usage in excess of the minimum, is reasonable.

3. Mt. Charlie should continue to maintain a balancing account to track water trucking expenses.

4. Mt. Charlie should continue to maintain a balancing account to track earthquake replacement/repair expenses.

5. Mt. Charlie should continue investigation into possible participation in the Montevina pipeline extension proposal.

6. Mt. Charlie's application should be granted to the extent provided by the following order, the adopted rates being just, reasonable, and nondiscriminatory.

7. Because of Mt. Charlie's immediate need for rate relief, this order should be effective immediately.

O R D E R

IT IS ORDERED that:

1. Mountain Charlie Water Works, Inc. (Mt. Charlie) is authorized to file the revised tariff schedule attached to this decision as Appendix A and to concurrently cancel its present schedule for such service. This filing shall comply with General Order Series 96. The effective date of the revised schedule shall be 5 days after the date of filing. The revised schedule shall apply only to service rendered on and after its effective date.

2. Mt. Charlie is authorized to continue to maintain separate balancing accounts to track water trucking expenses, and earthquake replacement/repair expenses.

3. Mt. Charlie shall continue investigation into possible participation in the Montevina pipeline extension proposal.

4. The application is granted as set forth above. This order is effective today.

Dated June 19, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

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

NEAL J. SHULMAN, Executive Director

PB

APPENDIX A

MT. CHARLIE WATER WORKS, INC.

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Unincorporated area in the vicinity of Glenwood, located ten miles north of Santa Cruz, Santa Cruz County.

RATES

	Per Meter Per Month	
Quantity Rate		
For water delivered in excess of monthly allowance, per 100 cu.ft.....	$ 5.25	(I)
Combined Service and Minimum Charge.....	$70.00	(C)

The Combined Service and Minimum Charge is a readiness-to-serve charge which also entitles the customer to an allowance of up to 500 cu.ft. of water for the month. The charge is applicable to all metered service and to which is added the quantity charge computed at the Quantity Rate for all water used in excess of the allowance. (T)

SPECIAL CONDITIONS

1. Residents whose homes were destroyed or rendered uninhabitable by the October 17, 1989 earthquake and its aftermath will not be charged the regular monthly service charge until their homes are replaced or rendered habitable.

2. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(END OF APPENDIX A)