ALJ/bw *

Decision 83 05 052 May 18, 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Conlin-Strawberry Water Company for general rate relief.	)	Application 82-06-43 (Filed June 17, 1982)
In the matter of the application of Conlin Strawberry Water Co., Inc., a California corporation, to borrow funds under the Safe Drinking Water Bond Act, and to add a surcharge to water rates to repay the principal and interest on such loan.	)	Application 82-07-49 (Filed July 27, 1982)

William G. Polley, Attorney at Law, for Conlin Strawberry Water Company, applicant.
Arthur E. Buss, for Strawberry Property Owner's Association; Richard Haberman, for California State Department of Health Services; and Edward L. Crandall, for Department of Water Resources; interested parties.
Patricia A. Bennett, Attorney at Law, Joseph Abhulimen, and Frank Filice, for the Commission staff.

O P I N I O N

I. INTRODUCTION

In this decision we award general rate relief in Application (A.) 82-06-43 in the amount of $8,660, which is a sum additional to that allowed in Resolution W-2984 (June 2, 1982). We also approve the request in A.82-07-49 to borrow funds under the Safe Drinking Water Bond Act (SDWBA), with a rate surcharge of $40,958 annually for a period not to exceed 35 years, at a rate of 8½% per year.

Conlin Strawberry Water Company (company) filed the applications as a sole proprietorship which was part of the estate of Miriam E. Conlin, managed by her son, Danny T. Conlin.[1/] Since then, the Superior Court for Tuolumne County has entered a preliminary order in which the business and assets of the company were distributed to Conlin. Conlin formed a corporation under the name Conlin Strawberry Water Company, Incorporated to receive the assets, and we authorized him to transfer the equipment and assets to the new corporation (Decision (D.) 83-03-007; A.82-11-22; March 2, 1983). That transfer is now complete.

Actual management of the company remains unchanged, with Conlin in charge of it, and using his residence as the main office.

Hearing on both applications was held in Sonora before Administrative Law Judge (ALJ) Meaney on October 27, 1982 (afternoon and evening) and both applications were submitted subject to the late filing of certain material.

At the hearing, the company offered a more detailed results of operations for A.82-06-43 containing new figures and a larger request for rate relief. The staff objected to its receipt unless the hearing was continued to a later date so that the new data could be analyzed. The ALJ sustained the objection to its receipt on the ground of untimeliness. The hearing then proceeded on the original request.

The company is located in an unincorporated area of Tuolumne County, and furnishes domestic water to the Strawberry subdivision (406 lots, 284 of which are improved and receiving service) and Dymond's Strawberry Ridge subdivision (103 lots, 45

1/ Subsequent references to "Conlin" are to Danny T. Conlin personally.

improved and receiving service). Both areas are near State Highway 108 and Sonora-Mono Highway. A description of the company's water source and supply system is contained in Section III of this opinion.

II. GENERAL RATE RELIEF (A.82-06-43)

Emergency Relief

This application was originally submitted as an advice letter on May 29, 1982 but because of the extent of the rate increase requested it was processed as a formal application. However, the staff recommended emergency relief because the company was receiving insufficient revenues to pay operating expenses. (Its rates had last been set by D.66037 in A.44688, dated December 31, 1963.) Resolution W-2984, dated June 2, 1982, allowed an immediate increase of $8,710 (38.7%), estimated to produce a 0% rate of return.

Staff Analysis

Staff witness Joseph Abhulimen analyzed the company's general rate increase request.[2/] The staff report (Exh. 3) accepted Conlin's request for a 9.5% rate of return on rate base but made certain adjustments to expenses. Most importantly, Abhulimen recommended that the Commission withhold the remainder of the rate relief until certain improvements are undertaken, relating to pump efficiency, water pressure, replacement of old pipe, flushing, and customer service. Exhibit 3 lists these recommendations as follows:

1. The utility should within 90 days of the effective date of an order in this proceeding submit a comprehensive plan to improve the pressure in the system, improve the pumping efficiency, and replace the deteriorated pipe in order to provide adequate service.

2/ Conlin testified in favor of the application, but his testimony is almost exclusively a rebuttal to the staff report and Abhulimen's testimony. Therefore, it is reviewed following the discussion of the staff presentation.

2. The [Hydraulic] Branch should review the plan within 60 days after submittal and make any necessary modifications.

3. If it is determined that the improvements are to be financed by utility equity, the utility should be ordered by the Commission to implement this plan within 150 days from the effective date of the order in this proceeding.

4. If it is determined to finance the improvements by additional SDWBA funds, the utility should be required to implement the plan as soon as the funds become available.

5. The utility should be ordered to obtain the services of an answering service or install a message recording device to handle emergency calls when utility personnel are not available.

6. The utility should be ordered to develop a schedule for flushing the distribution system as required to maintain potable water in the system at all times. This schedule should be submitted to the Commission for approval within 90 days of the effective date of the order in this proceeding.

The exhibit recommended that rates go into effect only when an improvement plan is filed.

The staff report reduces purchased power expense from $2,060 to $1,170 due to low pumping efficiency. Abhulimen's opinion was that if Conlin had properly maintained the pumps, such a large expenditure would be unnecessary; therefore, part of it results from Conlin's own imprudence.

The company's estimates also contained an "expenses capitalized" item of $2,930 which Abhulimen recommended be disallowed, explaining that in his opinion the sum was actually for maintenance

expense and there was no assurance that the work would actually be done. The particular project consisted of painting the company's storage tanks.

Abhulimen stated the staff had received 18 letters from customers who complained of inability to reach either Conlin or his parttime maintenance man.

The staff witness testified that the company's annual report shows installation of 12,000 linear feet of 2-inch pipe, which is substandard by current specifications in General Order (GO) 103. He said that this size pipe is the cause of low pressure problems. He suggested that improvements be financed either by an additional SDWBA loan or by company equity.

Company Presentation

The company relied upon the estimates submitted with the application, based on 1981 recorded information, and Conlin's own testimony.

Regarding pressure complaints, Conlin said that they related to new residential construction at higher than standard elevations. The evidence demonstrated that this is true with two recently built houses. The reason for low pressure at the third location is unclear, although the construction dates to a time when our standard was 25 psi rather than 40 psi.[3/]

Conlin introduced an estimate on the cost of capital improvements necessary to bring the pressure to 40 psi in that location, as follows (Exh. 2):

3/ The standard was raised from 25 psi to 40 psi in 1956. Conlin testified (and the staff did not dispute) that most of the system was constructed when the lower standard applied. The system is gravity-type, with the pumps supplying a tank.

Approximately 3,675' - 6" Water Line @ $9.00 per ft.	$33,075.00
New 50,000-Gallon Water Tank	40,000.00
2 New Pumps	4,000.00
Controls	3,500.00
Connection of New Pumps	3,000.00
Larger Building	6,000.00
Approximately 4 Lots @ $100.00 per Lot	400.00
Approximately 22 Houses @ $400.00 per Hook-up	8,800.00
Total Cost	98,775.00

The staff did not submit an alternate estimate.

Conlin was most critical of the staff recommendation that further rate relief should be withheld pending actual work on the improvements. He said that without additional funds he could not undertake the recommended improvements. With the full rate increase, however, he said he could accomplish all staff recommendations except the pressure improvement (see Item 3 from staff recommendations and discussion above).

Conlin expressed surprise at 18 letters to the staff concerning pressure. He testified that he himself had received no such complaints, although some customers complained of leaks, which he stated he repaired.

Conlin said that he is willing to purchase a turbidity monitor and a telephone answering device if rate relief is granted. He testified he would hire an engineer to formulate a plan to improve the system (see the first item in the list of staff recommendations). He questioned whether, as also recommended, he could implement the plan within 150 days by use of equity financing or, as an alternative, apply for and receive an additional SDWBA loan for this purpose.

Richard Haberman of the State Department of Health Services (DHS)[4/] testified that a utility may apply for and receive more than one SDWBA loan but that priority was given to water quality projects rather than water pressure.

Public Testimony

Because the staff had received the mentioned complaints, and because the Strawberry Property Owner's Association (Association) requested us to do so, we heard these matters in Sonora, on an afternoon-and-evening schedule. Unfortunately, the record concerning water service, and responsiveness to complaints, was not aided by any public testimony other than that of the president of the Association, Arthur E. Buss. The ALJ asked several times if anyone wished to testify, and although approximately a dozen people attended the afternoon and the evening hearings, no one came forward, not even those who are supposedly receiving low pressure. The hearing was well-noticed, since the ALJ required the company to make a special mailout to all customers notifying them of the hearing. Some letters were sent to the ALJ protesting the rate increase applications, and in some of them the writers demanded improvements to the system, but there was little specific information.

Buss testified the Association consists of 153 members who are either permanent residents or owners of second homes. He said the most frequent complaint on water service was turbidity[5/]

4/ This witness testified principally concerning the SDWBA loan which is the subject of A.82-07-49, and this testimony is reviewed later in this opinion.

5/ For further discussion of turbidity, see the section of this discussion devoted to the SDWBA application.

and siltation. The latter, he said, could be eliminated by a proper flushing program. While he did not entirely oppose a rate increase, he favored granting such relief after essential improvements are made.

Discussion

We believe that rate relief in the amount recommended by the staff should be awarded now, not later, with an order requiring the company to improve its service. While it is tempting to use delayed rate relief as leverage to obtain upgrading, the effect is to starve the company so that it cannot afford improvements. The emergency relief previously allowed set the company's return at an estimated 0.0%. The company's request for a 9.5% return on rate base is reasonable based on current economic conditions.

Company estimates for test year 1982 relied upon 1981 recorded information. The staff accepted them after a review of the company's books, with the exception of electrical bills, and certain expense related to painting of storage tanks.

We agree that the company's electric bills should be adjusted to reflect low pump efficiency. Reasonable efficiency is considered to be approximately 50%. The staff introduced pump efficiency test data, obtained from Pacific Gas and Electric Company, as follows:

Pump Location	Horsepower	Plant Efficiency
Rear of Strawberry Store	10	27%
1.6 mi. south of Old Strawberry Road	25	29%

This is unsatisfactory and may account for much of the low pressure in certain areas, since at times of peak usage, the system's tank may be close to empty. We will require the company to upgrade its maintenance, and, if necessary, to overhaul or replace the pumps.

The remainder of improvements necessary (according to Conlin) to bring the system to 40 psi will not be ordered at this time. Low pressure appears to be a serious problem, based on this record, only on one street, where two of three houses are at altitudes approaching that of the system's tank. Much of the system was built before 1956 and it is too burdensome financially to impose retroactively a 40 psi systemwide requirement. We must insist, however, that the system function at 25 psi at its lowest point of pressure, and this minimum pressure must be maintained as the system expands. Only about half the lots in the service territory are improved. The company is admonished that if its pressure problems are not solved, we have the authority to forbid further connections until the system is improved.

Because of the overall condition of the system we will follow the staff's recommendation that a plan to improve the system be submitted to the Commission within 90 days. Conlin stated that if rate relief is granted he would hire a civil engineer to formulate such a plan. This preliminary step is vital to the company's long-term interests, and to its customers. We emphasize that the engineering report must take into account that the service territory is only about half developed. While for the present we are accepting 25 psi as a pressure standard because of the age of the system, the report must contain recommendations on how to maintain 25 psi as more connections are made.

We will not order retroactive replacement of what is substandard (in size) pipe under the most current version of GO 103. The engineering report should include a reasonable program for pipe replacement. The report may recommend use of larger pipe where good engineering practice demands it.

The engineering report should place emphasis on what should be done about poor pumping efficiency. Can the pumps be overhauled or should they be replaced? What is a proper maintenance program for them?

The report should cover not only pump maintenance but include general guidelines for progressive maintenance of the system. Conlin's testimony on cross-examination was essentially that repairs were made when things broke or when there were leaks (Tr. 35). This is inadequate. Part of such maintenance should be a main flushing program.

We agree with the staff that the company should purchase a turbidity monitor (which costs about $2,500) and also a telephone answering device. Conlin stated he could afford these items with a rate increase.

Lastly, there is the issue of the expense of painting the tanks. The staff witness is correct that this is not a proper item for capitalization. It is also not a sum to be expensed on an annual basis, since it is a task performed once every several years. If the company paints the tanks, it should incorporate that expense in its next general rate increase request with some provision for amortization since it is not an annual expense.

Following this page is a results of operation table showing development of rate levels from 1963 levels to the general rate relief awarded. After that there are rate charts for both flat and metered service, changes in rates (1) from 1963 levels to the interim rates established in June of 1982, (2) from interim to final, and (3) from final rates to those rates with the SDWBA surcharge added. The rates recommended by the staff are adopted.

Rate Design

In Resolution No. W-2984 dated June 2, 1982 we adopted a rate design to capture the interim revenue increase granted in that order. The rate structure for residential metered service consisted of an annual minimum/service charge rate with a single commodity rate block. This structure was adopted in lieu of a two block rate structure because the monthly water usage per customer averaged only 4.8 Ccf. The small monthly usage is due to the fact that most of the residences served are second homes. The addition of a lifeline block would not have captured the interim revenue increase authorized, and would have caused very large increases for usage in the second block.

Inasmuch as usage patterns have not changed since our interim rate decision, we will continue the rate design adopted in that decision.

Summary of Earnings

	1963 Rates (Staff Est.)	Interim (6-2-82)	Company Final	Adopted
Operating Revenue	$22,480	$31,190	$42,280	$39,850
Operating Expenses				
Source of Supply	100	100	100	100
Power	1,170	1,170	2,060	1,170
Employee Labor	8,900	8,900	8,900	8,900
Materials	1,470	1,470	1,470	1,470
Contract Work	690	690	690	690
Office Salaries	6,670	6,670	6,670	6,670
Management Salaries	2,960	2,960	2,960	2,960
Office Supplies & Expenses	400	400	400	400
Insurance	620	620	620	620
Accounting, Legal, etc.	500	500	500	500
General Expense	340	340	340	340
Vehicle Expense	1,240	1,240	1,240	1,240
Office & Storage Rental	1,200	1,200	1,200	1,200
Expense Capitalized	--	--	2,930	--
Depreciation	3,140	3,140	3,140	3,140
Other Taxes	1,790	1,790	1,790	1,790
Deductions Before Income Taxes	31,190	31,190	35,010	31,190
Income Taxes	-	-	780	2,150
Total Deductions	31,190	31,190	35,790	33,340
Net Revenue	(8,710)	-	6,490	6,510
Rate Base				
Average Plant	256,000		256,000	256,000
Aver. Deprec. Reserve	97,500		97,100	97,500
Net Plant	158,500		158,900	158,500
Advances	(42,420)		(43,150)	(42,420)
Contributions	(51,000)		(50,850)	(51,000)
Working Cash	2,500		2,500	2,500
M & S	800		800	800
Rate Base	68,560	68,560	68,200	68,560
Return on Rate Base	Loss	0%	9.5%	9.5%

Note: The above table does not include the surcharge for SDWBA loan repayment.

FLAT RATE

	Per Service Connection Per Year		
	1963 Rates	Interim Rates 6/15/82	Percent Increase
1. For each single-family residential unit or business establishment	$ 68.00	$ 94.00	38.7
For each additional single-family residential unit on the same premises and served from the same service connection	60.00	83.00	38.7
2. For main resort buildings	24.00	33.00	38.7
3. For each swimming pool	24.00	33.00	38.7

FLAT RATE

	Per Service Connection Per Year		
	1963 Rates	Recommended Final Rates	Percent Increase
1. For each single-family residential unit or business establishment	$ 68.00	$120.00	76.5
For each additional single-family residential unit on the same premises and served from the same service connection	60.00	106.00	76.6
2. For main resort buildings	24.00	42.00	75.0
3. For each swimming pool	24.00	42.00	75.0

FLAT RATE

	Per Service Connection Per Year		
	1963 Rates	Recommended Final Rates + Surcharge	Percent Increase
1. For each single-family residential unit or business establishment	$ 68.00	$247.20	263.5
For each additional single-family residential unit on the same premises and served from the same service connection	60.00	106.00	176.67
2. For main resort buildings	24.00	42.00	75.0
3. For each swimming pool	24.00	42.00	75.0

METERED SERVICE

	Per Meter Per Month	
	1963 Rates	Interim Rates 6/15/82
Monthly Quantity Rates:		
All use, per 100 cu.ft.	$ -	$ 0.53
First 600 cu.ft., or less	5.50	-
Next 1,400 cu.ft., per 100 cu.ft.	.50	-
Next 3,000 cu.ft., per 100 cu.ft.	.25	-
Over 5,000 cu.ft., per 100 cu.ft.	.15	-

	Per Meter Per Year	
	1963 Rates *Minimum Charge	Interim Rates +Service Charge 6/15/82
Annual Minimum/Service Charge:		
For 5/8 x 3/4-inch meter	$ 66.00	$ 66.00
For 3/4-inch meter	84.00	72.00
For 1-inch meter	120.00	99.00
For 1½-inch meter	180.00	132.00
For 2-inch meter	250.00	178.00
For 3-inch meter	350.00	330.00
For 4-inch meter	500.00	450.00

* The Annual Minimum Charge entitled the customers to the quantity of water each month which one-twelth of the Annual Minimum Charge would purchase at the monthly quantity rates.

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

A comparison of monthly customer bills in 1981 and the interim rates granted in 1982 for a 5/8 x 3/4-inch meter is shown below:

Usage 100 cu.ft.	1963 Rates	Interim Rates 6/15/82	Amount Increase	Percent Increase
0	$ 5.50	$ 5.50	$ -	-
3	5.50	7.09	1.59	28.90
4	5.50	7.62	2.12	38.54
5	5.50	8.15	2.65	48.18
10	7.50	10.80	3.30	44.00
15	10.00	13.45	3.45	34.50
20	12.50	16.10	3.60	28.80
25	13.75	18.75	5.00	36.36

METERED SERVICE

	Per Meter Per Month	
	1963 Rates	Recommended Final Rates
Monthly Quantity Rates:		
All use, per 100 cu.ft.	$ -	$ 0.95
First 600 cu.ft., or less	5.50	-
Next 1,400 cu.ft., per 100 cu.ft.	.50	-
Next 3,000 cu.ft., per 100 cu.ft.	.25	-
Over 5,000 cu.ft., per 100 cu.ft.	.15	-

	Per Meter Per Year	
	1963 Rates *Minimum Charge	Recommended Final Rates +Service Charge
Annual Minimum/Service Charge:		
For 5/8 x 3/4-inch meter	$ 66.00	$ 84.00
For 3/4-inch meter	84.00	92.00
For 1-inch meter	120.00	126.00
For 1½-inch meter	180.00	168.00
For 2-inch meter	250.00	226.00
For 3-inch meter	350.00	419.00
For 4-inch meter	500.00	570.00

* The Annual Minimum Charge entitled the customers to the quantity of water each month which one-twelth of the Annual Minimum Charge would purchase at the monthly quantity rates.

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

A comparison of monthly customer bills in 1981 and Hydraulic Branch's recommended rates for a 5/8 x 3/4-inch meter is shown below:

Usage 100 cu.ft.	1963 Rates	Recommended Final Rates	Amount Increase	Percent Increase
0	$ 5.50	$ 7.00	$ 1.50	27.3
3	5.50	9.85	4.35	79.0
4	5.50	10.80	5.30	96.4
5	5.50	11.75	6.25	113.6
10	7.50	16.50	9.00	120.0
15	10.00	21.25	11.25	112.5
20	12.50	26.00	13.50	108.0
25	13.75	30.75	17.00	123.6

METERED SERVICE

	Per Meter Per Month	
	1963 Rates	Recommended Final Rates
Monthly Quantity Rates:		
All use, per 100 cu.ft.	$ -	$ 0.95
First 600 cu.ft., or less	5.50	-
Next 1,400 cu.ft., per 100 cu.ft.	.50	-
Next 3,000 cu.ft., per 100 cu.ft.	.25	-
Over 5,000 cu.ft., per 100 cu.ft.	.15	-

	Per Meter Per Year	
	1963 Rates *Minimum Charge	Recommended Final Rates # Service Charge +Surcharge
Annual Minimum/Service Charge:		
For 5/8 x 3/4-inch meter	$ 66.00	$ 211.20
For 3/4-inch meter	84.00	316.80
For 1-inch meter	120.00	444.00
For 1½-inch meter	180.00	804.00
For 2-inch meter	250.00	1,243.60
For 3-inch meter	350.00	2,327.00
For 4-inch meter	500.00	3,750.00

* The Annual Minimum Charge entitled the customers to the quantity of water each month which one-twelth of the Annual Minimum Charge would purchase at the monthly quantity rates.

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

A comparison of monthly customer bills in 1981 and Hydraulic Branch's recommended rates and the surcharge for a 5/8 x 3/4-inch meter is shown below:

Usage 100 cu.ft.	1963 Rates	Recommended Final Rates +Surcharge	Amount Increase	Percent Increase
0	$ 5.50	$ 17.60	$ 12.10	220.00
3	5.50	20.45	14.95	271.80
4	5.50	21.40	15.90	289.10
5	5.50	22.35	16.85	306.40
10	7.50	27.10	19.60	261.30
15	10.00	31.85	21.85	218.50
20	12.50	36.60	24.10	192.80
25	13.75	41.35	27.60	200.70

III. WATER BOND APPLICATION (A.82-07-49)

The Application

The company seeks Commission approval to borrow an amount not to exceed $411,200 under SDWBA, to repay the loan over a period of 30 to 35 years, and to increase water rates for that period in an estimated annual amount of $40,958. For effect on specific rates, see the tables preceding this section of the opinion under "surcharge". The application contains a concise description of the planned improvements, their justification, and the cost estimate, as follows:

> "ITEM 1: Need.
>
> "(a) The source of water supply for the system is Herring Creek. Filtering at the point of diversion is by the water flowing through and over a rock basin, and then through a settling tank approximately 350 feet downstream.
>
> "(b) The supply line, installed in 1939, from the settling tank and point of chlorination to the original 125,000 gallon storage tank, a distance of approximately 5,100 LF is a 10-inch steel pipe. Maintenance is a problem and this line should be replaced. A few areas are now being supplied with pipe too small to carry the loads imposed by additional construction which was not anticipated at the time of original installation.
>
> "(c) Additional storage is required to increase pressure in some areas, and maintain or provide adequate pressure in other areas.
>
> "ITEM 2: Description of Proposed Project.
>
> "The funds we request will provide the following improvements in the water service to our customers:
>
> "IMPROVEMENT NO. 1 - FILTRATION SYSTEM: The State Department of Health has ordered the installation of a filter to treat our surface water supply. It is proposed to locate this filter system at a

site approximately 3,900 feet from the point of diversion on Herring Creek. A building will be constructed at this location to house the filters and pumps to supply the 100,000 gallon storage tank. The chlorinator now located approximately 350 feet below the diversion point, will be replaced by a new chlorination system and located in this same building. The reasons for selecting this new site are (1), that it is a central point where diverging supply points are readily accessible; (2) electrical power is adjacent to the site; and (3), ease of access for checking and maintenance in inclement weather. The existing chlorinator site by comparison, is 1,600 feet across Forest Service property to the nearest source of electrical power; the existing building will not house filters; the site is 3,600 feet from the central diverging supply point, and access for winter maintenance is particularly difficult.

"IMPROVEMENT NO. 2 - SUPPLY LINE AND DISTRIBUTION LINE REPLACEMENT:

"(a) The existing 10-inch steel line has been in place for 43 years and has many visible holes and splits along the length where it is exposed to view at drainage channel crossings, etc. We propose to replace this line from the present settling tank and chlorinator house to the new filter, pump and chlorinator building with a 12-inch pipe.

"(b) The existing 10-inch line from this point to the 124,000 gallon storage tanks south of Highway 108 will be used as a bypass line to carry untreated excess water from a diversion box adjacent to the new building to the vicinity of the three tanks south of Highway 108 where it will drain by an existing drainage channel back to the South Fork of the Stanislaus River. This is the same channel over which the excess water now drains after overflowing from the 124,000 gallon tank in this area. The treating of many thousands of gallons

of water per month will be saved by this bypass. The amount, of course, will vary with seasons and the overflow will retain the green meadow north of the river, which is a landmark to all natives and vacationers into the area.

"(c) A new 10-inch line will extend from the new building down to the commercial area to provide better flow and fire protection. This line will then be extended to the east along River Drive and tie into a 6-inch line connecting the two tanks at an elevation of 5,380 feet.

"IMPROVEMENT NO. 3 - WATER STORAGE TANK:

"(a) One storage tank will be required in the vicinity of the new building to maintain supply and proper pressure to the surrounding area.

"Description of Item	Estimated Cost
IMPROVEMENT NO. 1 - FILTRATION SYSTEM	
New Building	$18,000
Filter Plant, 2-100 GPM Units	32,000
Chlorinator	6,900
Chlorine Cylinder Scale	800
Chlorine Masks (2)	1,800
Chemical Feed Pump and Solution Tank	900
Turbidimeter/Recorder	2,000
Relocate Pump, 1-84 GPM	800
New Pump, 100 GPM @ 220'HD	1,800
Pipe, Fittings & Valves In Place	11,000
Installation and Connection of Equipment	2,000
Insulation of Tanks & Piping	4,000
Sand Trap	4,000
Diversion Structure	4,000
Electrical, Heating & Controls	6,000
TOTAL - IMPROVEMENT NO. 1	96,000

IMPROVEMENT NO. 2 - SUPPLY LINE AND DISTRIBUTION LINE REPLACEMENT	
12-Inch Pipe (in place), 3,500 LF @ 23.00/LF	$ 80,500
10-Inch Pipe (in place), 4,400 LF @ $18.00/LF	79,200
1 Highway Crossing	6,000
TOTAL - IMPROVEMENT NO. 2	$165,700
IMPROVEMENT NO. 3 - WATER STORAGE TANK (INCLUDING BASE)	
Tank at New Building, 100,000 Gal.	$ 58,000
TOTAL - IMPROVEMENT NO. 3	58,000
SUBTOTAL - ALL IMPROVEMENTS	319,700
Contingencies (8 percent)	39,500
SUBTOTAL	$359,200
Engineering, Overhead and Administration	$ 40,000
TOTAL LOAN REQUIRED (As of June 1, 1981)	399,200
Department of Water Resources Fee - 3%	12,000
	$411,200

"ITEM 4. Financing. The improvements are needed and required by the State Department of Health to provide good quality water at all times to the consumers, and to comply with the rules and regulations as set forth by the State Department of Health on surface waters.

"ITEM 5. Ability to Repay. Depends on a Rate Increase approved by the Public Utilities Commission.

"ITEM 6. Water Conservation. The replacing of the existing 10-inch steel line which has many visible leaks and no doubt many underground leaks will eliminate this loss. The new bypass

line from the filter building to the existing overflow area will also prevent other tank overflow waste.

"ITEM 7. Work to be performed by Conlin Excavating with the written approval of the Department of Water Resources."

Testimony at Hearing

Richard Haberman, a civil engineer employed by DHS testified that the improvements to be financed include raw water and treated water transmission pipelines and a treatment plant capable of producing water that is safe and potable at all times. He said that the company's existing facilities cannot be considered safe at all times due to inadequate treatment and transmission facilities.

The company currently uses a chemical disinfectant which, according to the witness, is not a guarantee of continually safe water. DHS has directed the company to install filtration and chemical pretreatment facilities.

He said DHS will review detailed plans and specifications before the loan is extended. He pointed out that the project is not designed to assure a minimum of 40 psi water pressure.

Haberman testified that while DHS has for several years requested the company to obtain daily turbidity and chlorine residual readings of the drinking water, and to file a monthly summary with DHS, the company had never complied with this requirement until August and September of 1982, when DHS received chlorine readings only.

The witness had originally recommended that the company be awarded no rate increase pending compliance with DHS's testing and reporting procedures. On cross-examination, he accepted an award of rate relief along with the Commission's orders requiring compliance as a "reasonable alternative". (Tr. 19.)

Haberman said that while bacteriological counts had been satisfactory since 1979, bacteriological problems could occur with the company's water system in its present condition. He recommended Commission approval of the loan contract.

C. Frank Filice, a financial examiner with the Commission staff, testified concerning the loan contract. He said that the proposed surcharge would increase rates an approximate average of $10.60 per month for a customer with a 5/8" x 3/4" meter or 3/4" flat rate service. Water rates for customers with larger meters or services would increase proportionally.[6/] He said that financing is available through low-cost 8½% loans (the witness's estimate at the date of hearing).

If the Commission authorizes the company to enter into the contract and authorizes the rate surcharge, DHS must still approve the project's specifications, and the Department of Water Resources does not release funds to the company until all bids and estimates on the proposed construction are approved to assure the work will be done within the scope of the commitment.

Rate surcharges, Filice emphasized, do not contain any return to the company and are sufficient only to cover the principal, interest, and reserve payments. Also, DHS monitors the construction while in progress and makes a final inspection. Ultimately, the customer pays for improvements to the system regardless of the method of financing, and the loan is a low-cost alternative to private borrowing.

6/ See tables earlier in opinion for effect of surcharges to rates.

Filice concluded by stating that since the long-term SDWBA loan is the only source of funds available to the company, he recommended approval of the loan contract.

Again, the only public witness on the subject was Arthur Buss, president of the Association. He said that if the application is granted, the Commission should assure diligent compliance with state requirements for potable water.

Discussion

A rate surcharge of the magnitude proposed should not be granted unless there is a clear and convincing showing that it is needed and there is no alternative to it. In this instance, if we deny approval for the company to enter into the loan contract, the ultimate result may be the shutdown of the company, leaving the customers without public utility water service. We therefore choose to grant the application with ordering paragraphs in this decision which will require compliance with DHS rules and directives.

We should do whatever possible, however, to limit the pronounced effect of the surcharge on existing ratepayers. This system, counting both subdivisions it serves, consists of 329 occupied lots receiving domestic water service, and 180 vacant lots.[7/] Owners of the vacant lots, as well as those currently receiving water service, benefit from the SDWBA improvements because without them, the system would eventually be unusable. Value of the vacant lots, as well as the occupied lots, is materially reduced by the absence of public utility water service, or by the presence of service which does not meet standards of potability.

7/ This was the count at the hearing date. No evidence was presented which shows any further development is currently planned.

In three previous cases we have recognized the problem and have at least partially solved it by imposing a charge which is placed in a special fund to be applied to reducing the SDWBA rate surcharge. (Waegener v Cedar Ridge Water Co., C.10991; D.82-04-112, April 21, 1982; Berry Creek Water Co., A.60513, D.93534, September 15, 1981; Riverdale Water Co., A.82-12-06; D.83-02-046, February 16, 1983.) As we said in Waegener:

> "It is clear that the availability of water enhances the value of the lots not yet connected to the system. Furthermore, when these lots are developed they will benefit from the improvements which were made from the proceeds of the loan. The benefits include water quality which meets health standards and better fire protection."

There is no charge on vacant lots as such prior to connection of service, since we have no jurisdiction over undeveloped lots which do not receive public utility service. (Waegener v Cedar Ridge Water Co., supra; TURN v Pacific Tel. & Tel. Co. (1978) 83 CPUC 318.) The lump sum charge is made only upon connection. We will follow the method previously employed by setting a charge equal to the scheduled monthly surcharge,[8/] accumulated to a maximum fee of $1,000. For example (see Schedule 1B in the appendix to this decision) if a connection is made to a metered customer using a 5/8 x 3/5-inch meter, the very first month after the surcharge applies (after the loan proceeds are received by the company) the customer would simply begin paying the $10.60 surcharge. For each month thereafter the $10.60 charge would

---

8/ There is flat rate service for some customers, but the tariff we are adopting for them puts the surcharge on a monthly basis even for the annual customers.

accumulate to a maximum of $1,000. The customer would pay a lump sum charge upon connection to the system. The customer thereafter pays the surcharge on the same basis as the other customers.

It is not possible to calculate the exact benefit to the vacant lot owner. It should be noted, however, that no such owner will ever pay a total charge greater than the owner of a developed parcel. While the owner of an existing house who pays $10.60 over 35 years will have paid in excess of $4,000, a late developer might pay no more than the $1,000. We believe a $1,000 "cap" is necessary on the accumulated payment in order that an excessive lump-sum payment does not make the lots less likely to be developed.

Fiscal controls are necessary to assure accountability. The company will be required to establish a separate bank account for deposits and disbursements of the SDWBA loan, and to establish on its own books a balancing account to be credited with revenue collected under the surcharges or by way of the connection charges.

IV. CONCLUSION

This decision awards substantial rate increases although the company's service is unsatisfactory in several particulars. The size of the general rate increase results partly from the fact that the company had sought no rate relief since 1963. The size of the surcharge is made necessary by the scope of improvements necessary to keep the system safely operable.

We are not willing to award these increases without assuring the company's customers that we are prepared to take action if improvements are not made. Among other remedies

available is a reopening of this proceeding and a reduction in rates if it appears to us that the company's management does not comply with the orders in this decision.

While the Commission is hardly interested in raising rates more often than necessary, long-overdue rate relief can only harm the utility customer when the utility has a return insufficient to increase and modernize its plant. This applicant, and others similarly situated, are encouraged to avoid this situation.

Findings of Fact

1. Conlin Strawberry Water Co., Inc. (company), a California corporation, is a public utility furnishing domestic water service to the Strawberry subdivision and Dymond's Strawberry Ridge subdivision near State Highway 108 and Sonora-Mono Highway in Tuolumne County. The company replaces the original applicant in these applications.

2. On June 2, 1982, the Commission awarded rate relief of $8,710 estimated to produce a 0% rate of return.

3. Company's request for a 9.5% rate of return on rate base will provide for maintenance and continued operation of the system and is reasonable.

4. Staff's results of operations for general rate relief will provide an opportunity to earn this return and is reasonable, and company is in need of additional general rate relief of $8,660.

5. Staff's rate design is reasonable and consistent with Commission policy.

6. Service improvements are needed, as follows:

   a. Pump efficiency should be improved to at least the 50% level for both pumps, within one year of the date of this order.

   b. Worn pipe should be replaced.

   c. A main flushing program should be instituted to reduce siltation and turbidity.

   d. The company should purchase a turbidity monitor and take readings as required by DHS.

e. The company should make prompt reports to DHS as required by that agency.

7. The company should be ordered to retain a licensed civil engineer within 30 days of the date of this decision to formulate a plan for upgrading the company's plant and service. The plan should be completed within 120 days and should include (as is more fully discussed in the opinion):

a. Pump efficiency improvement and maintaining a standard of at least 25 psi at the lowest pressure point at all times;

b. A plant which will permit that pressure standard to be maintained as the system expands to full use of the vacant lots;

c. Reduction of siltation and turbidity;

d. Development of a proper main-flushing program;

e. A schedule for replacement of worn pipe, and recommendations on upgrading pipe or other plant equipment where necessary; and

f. Any other recommendations on general maintenance and upkeep, and plant improvement.

8. Pending completion of the report, the company should not consider itself relieved from expending reasonable sums to maintain and improve the utility plant, and should exercise its best management judgment in operating the company. Such operation should include the service improvements listed in Finding 6.

9. Response to customer complaints is inadequate, and the company should purchase and use a telephone answering device, or contract with a telephone answering service, for the purpose of improving such response.

10. The present system is not capable of delivering safe and potable water to its customers at all times.

11. Equity capital is, and will remain, inadequate for the purpose of paying for extensive improvements necessary to assure safe and potable water in the future.

12. It is reasonable to allow the company to enter into a contract with Department of Water Resources to borrow $411,200 to be repaid over a term not to exceed 35 years, to make improvements required by DHS, and to comply with DHS rules and standards.

13. The company should be authorized a surcharge to rates, as set forth in the order, to repay the loan in Finding 12. The surcharge should commence on the first day of the month following receipt of the proceeds of the loan by the company.

14. Certain fiscal controls should be required as set forth in the order.

Conclusions of Law

1. Company should be awarded rate relief in A.82-06-43 in the amount of $8,660, in addition to that amount allowed in Resolution W-2984 dated June 2, 1982.

2. Company should be authorized to contract with Department of Water Resources to borrow a sum not exceeding $411,200 to be repaid in 35 years or less, to make improvements meeting DHS standards which will assure a continued supply of safe and potable water.

3. Company should be authorized to repay the loan with a surcharge to rates, commencing when the proceeds of the loan are received.

4. Because rate relief is needed before improvements can be made, the effective date of this decision should be today.

O R D E R

1. On or after the effective date of this order, Conlin Strawberry Water Company, Inc. (company) is authorized to file the revised rate schedules attached to this order as Appendix A. The filing shall comply with General Order 96. Company shall

give at least five days' notice to its customers, by mail, of the revised schedules, and may thereafter place them into effect. The revised schedules shall apply only to service rendered on and after their effective date.

2. Company shall undertake the following measures to improve service, under the following schedule:

a. Improvement of pump efficiency to 50% or better for both pumps: one year from the date of this order.

b. Purchase of turbidity monitor: three months from the date of this order.

c. Use of telephone answering device or answering service: 30 days from the date of this order.

d. Main-flushing program: 30 days from the date of this order.

e. Replacement of worn pipe: as necessary to prevent service breakdowns, pending engineering study.

3. Company shall, within 30 days of the date of this order, contract with a licensed civil engineer to formulate a plan for plant improvement and proper progressive maintenance, as set forth in Finding 7. A copy of the engineering report shall be furnished to this Commission, Attention Hydraulic Branch, and to the Department of Health Services (DHS).

4. Company shall make prompt and accurate reports as required by DHS.

5. Company is authorized to borrow a sum not to exceed $411,200 from the State of California, to execute the proposed loan contract, and to use the proceeds for the purposes specified in A.82-07-49.

6. Upon execution of the loan contract, and approval of the loan, the company is authorized to file the revised tariff schedules attached to this order as Appendix B. The filing shall comply with General Order 96. Company shall give at least five days' notice, by mail, to its customers, and may thereafter place the revised schedules into effect. The revised schedules shall apply only to service rendered on and after their effective date.

7. Company shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue and interest earned on deposits made to the fiscal agent. The balancing account shall be reduced by payment of principal and interest to the California Department of Water Resources and by any charges for the services of the fiscal agent. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by company.

8. As a condition of the rate increase granted, company shall be responsible for refunding or applying on behalf of its customers any surplus accrued in the balancing account when ordered by the Commission.

9. Plant financed through the California Safe Drinking Water Bond Act of 1976 (SDWBA) loan shall be permanently excluded from rate base for ratemaking purposes.

10. To assure repayment of the loan, company shall deposit all rate surcharge and upfront cash payment revenue collected with the fiscal agent approved by Department of Water Resources. Such deposits shall be made within 30 days after the surcharge and up-front cash payment moneys are collected from customers.

11. Company shall file a copy of the Department of Water Resources loan contract and a copy of the agreement with the fiscal agent with the Commission (to the attention of the Assistant Director and Chief Accountant, Revenue Requirements Division) within 30 days after these documents have been executed.

12. Company shall establish and maintain a separate bank account to ensure adequate accountability for deposits and disbursements of SDWBA loan construction funds advanced by Department of Water Resources to the utility.

This order is effective today.

Dated MAY 18 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners

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

Joseph E. Bodovitz, Executive Director

Schedule No. 1B

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Strawberry and vicinity, located approximately 31 miles east of Sonora, Tuolumne County.

RATES

	Per Meter Per Month	
Monthly Quantity Rates:		
All use, per 100 cu.ft.....	$ 0.95	(I)

Annual Service Charge:	Per Meter Per Year	
For 5/8 x 3/4-inch meter.....	$ 84.00	(I)
For 3/4-inch meter.....	92.00	|
For 1-inch meter.....	126.00	|
For 1½-inch meter.....	168.00	|
For 2-inch meter.....	226.00	|
For 3-inch meter.....	419.00	|
For 4-inch meter.....	570.00	(I)

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

Schedule No. 2B

ANNUAL GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Strawberry and vicinity, located approximately 31 miles east of Sonora, Tuolumne County.

RATES

	Per Service Connection Per Year	
For each single-family residential unit or business establishment.....	$120.00	(I)
For each additional residential unit or business establishment on the same premises and served from the same service connection.....	106.00	
For main resort buildings.....	42.00	
For each swimming pool.....	42.00	(I)

(END OF APPENDIX A)

Schedule No. 1B

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Strawberry and vicinity, located approximately 31 miles east of Sonora, Tuolumne County.

RATES

	Per Meter Per Month	
Monthly Quantity Rates:		
All use, per 100 cu.ft.	$ 0.95	(I)

Annual Service Charge:

	Per Meter Per Year	Per Meter Per Month Surcharge	
For 5/8 x 3/4-inch meter	$ 84.00	$ 10.60	(N)
For 3/4-inch meter	92.00	15.90	|
For 1-inch meter	126.00	26.50	|
For 1½-inch meter	168.00	53.00	|
For 2-inch meter	226.00	84.80	|
For 3-inch meter	419.00	159.00	|
For 4-inch meter	570.00	265.00	(N)

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

The Surcharge is in addition to regular charges for water service.

Schedule No. 2B

ANNUAL GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Strawberry and vicinity, located approximately 31 miles east of Sonora, Tuolumne County.

RATES

	Per Service Connection Per Year	Per Meter Per Month Surcharge	
For each single-family residential unit or business establishment.....	$120.00	$10.60	(N)
For each additional residential unit or business establishment on the same premises and served from the same service connection.....	106.00		
For main resort buildings.....	42.00		
For each swimming pool.....	42.00		

The Surcharge is in addition to regular charges for water service and is applicable to flat rate service not larger than 3/4-inch.

Schedule No. 3B

STATE BOND ACT LOAN UNDEVELOPED LOT CHARGE

APPLICABILITY

Applicable to undeveloped lots within the service territory of Conlin Strawberry Water Company, Inc., Tuolumne County, effective (a). (N)

RATES

A service charge to provide for reduction of the Safe Drinking Water Bond Act loan surcharges is chargeable to customers requesting future service to undeveloped lots.

The service charge shall be the accumulated total of the monthly surcharge provided for in Schedules 1B and 2B, as applied to the property being furnished water service from (a) to the date of the connection. The maximum service charge shall be $1,000. The service charge shall be due and payable upon connection of water service to the lot. The surcharge authorized by the Commission, as contained in the Utility's filed tariffs, will apply thereafter.

The monthly surcharge established by the Public Utilities Commission in Decision (b) is subject to periodic adjustment. The calculation of the accumulated surcharges shall take into account such periodic adjustments. (N)

(a) Insert effective date (see Ordering Paragraph 3).

(b) Insert number of this decision.

(END OF APPENDIX B)

ALJ/bw

ORIGINAL

Decision 83 05 052 MAY 18 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Conlin-Strawberry Water Company for general rate relief.	Application 82-06-43 (Filed June 17, 1982)
In the matter of the application of Conlin Strawberry Water Co., Inc., a California corporation, to borrow funds under the Safe Drinking Water Bond Act, and to add a surcharge to water rates to repay the principal and interest on such loan.	Application 82-07-49 (Filed July 27, 1982)

William G. Polley, Attorney at Law, for Conlin Strawberry Water Company, applicant.
Arthur E. Buss, for Strawberry Property Owner's Association; Richard Haberman, for California State Department of Health Services; and Edward L. Crandall, for Department of Water Resources; interested parties.
Patricia A. Bennett, Attorney at Law, Joseph Abhulimen, and Frank Filice, for the Commission staff.

O P I N I O N

I. INTRODUCTION

In this decision we award general rate relief in Application (A.) 82-06-43 in the amount of $8,660, which is a sum additional to that allowed in Resolution W-2984 (June 2, 1982). We also approve the request in A.82-07-49 to borrow funds under the Safe Drinking Water Bond Act (SDWBA), with a rate surcharge of $40,958 annually for a period not to exceed 35 years, at a rate of 8 1/2% per year.

Change for P. 10

We will not order retroactive replacement of what is substandard (in size) pipe under the most current version of GO 103. The engineering report should include a reasonable program for pipe replacement. The report may recommend use of larger pipe where good engineering practice demands it.

We will not order retroactive replacement of what is substandard (in size) pipe under the most current version of GO 103, but we will require replacement of worn-out pipe with the same size pipe of good quality. The engineering report should cover this problem and include a reasonable program for pipe replacement. The report may recommend use of large pipe where good engineering practice demands it.

The engineering report should place emphasis on what should be done about poor pumping efficiency. Can the pumps be overhauled or should they be replaced? What is a proper maintenance program for them?

The report should cover not only pump maintenance but include general guidelines for progressive maintenance of the system. Conlin's testimony on cross-examination was essentially that repairs were made when things broke or when there were leaks (Tr. 35). This is inadequate. Part of such maintenance should be a main flushing program.

We agree with the staff that the company should purchase a turbidity monitor (which costs about $2,500) and also a telephone answering device. Conlin stated he could afford these items with a rate increase.

Lastly, there is the issue of the expense of painting the tanks. The staff witness is correct that this is not a proper item for capitalization. It is also not a sum to be expensed on an annual basis, since it is a task performed once every several years. If the company paints the tanks, it should incorporate that expense in its next general rate increase request with some provision for amortization since it is not an annual expense.

In three previous cases we have recognized the problem and have at least partially solved it by imposing a charge which is placed in a special fund to be applied to reducing the SDWBA rate surcharge. (Waegener v Cedar Ridge Water Co., C.10991; D.82-04-112, April 21, 1982; Berry Creek Water Co., A.60513, D.93534, September 15, 1981; Riverdale Water Co., A.82-12-06; D.83-02-046, February 16, 1983.) As we said in Waegener:

> "It is clear that the availability of water enhances the value of the lots not yet connected to the system. Furthermore, when these lots are developed they will benefit from the improvements which were made from the proceeds of the loan. The benefits include water quality which meets health standards and better fire protection."

There is no charge on vacant lots as such prior to connection of service, since we have no jurisdiction over undeveloped lots which do not receive public utility service. (Waegener v Cedar Ridge Water Co., supra; TURN v Pacific Tel. & Tel. Co. (1978) 83 CPUC 318.) The charge is made only upon connection. We will follow the method previously employed by setting a charge equal to the scheduled monthly surcharge,[8] accumulated to a maximum fee of $1,000. For example (see Schedule 1B in the appendix to this decision) if a connection is made to a metered customer using a 5/8 x 3/5-inch meter, the very first month after the surcharge applies (after the loan proceeds are received by the company) the customer would simply begin paying the $10.60 surcharge. For each month thereafter the $10.60 charge would

---

8/ There is flat rate service for some customers, but the tariff we are adopting for them puts the surcharge on a monthly basis even for the annual customers.

SS

The customer would pay a lump sum charge upon connection to the system,

accumulate to a maximum of $1,000. The customer thereafter pays the surcharge on the same basis as the other customers.

It is not possible to calculate the exact benefit to the vacant lot owner. It should be noted, however, that no such owner will ever pay a total charge greater than the owner of a developed parcel. While the owner of an existing house who pays $10.60 over 35 years will have paid in excess of $4,000, a late developer might pay no more than the $1,000. We believe a $1,000 "cap" is necessary on the accumulated payment in order that an excessive lump-sum payment does not make the lots less likely to be developed.

Fiscal controls are necessary to assure accountability. The company will be required to establish a separate bank account for deposits and disbursements of the SDWBA loan, and to establish on its own books a balancing account to be credited with revenue collected under the surcharges or by way of the connection charges.

IV. CONCLUSION

This decision awards substantial rate increases although the company's service is unsatisfactory in several particulars. The size of the general rate increase results partly from the fact that the company had sought no rate relief since 1963. The size of the surcharge is made necessary by the scope of improvements necessary to keep the system safely operable.

We are not willing to award these increases without assuring the company's customers that we are prepared to take action if improvements are not made. Among other remedies