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Decision No. 89124 JUL 25 1978

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of
Otto A. Knaak, dba Amervale Water Co.,
for authority to discontinue water
service in East Quincy, Plumas County,
California.

Application No. 57598
(Filed September 30, 1977)

Otto A. Knaak, doing business as Amervale
Water Company, for himself, applicant.
Arthur Griffin, for East Quincy Services
District, interested party.
Randolph Wu, Attorney at Law, and Frank E.
Lindskoog, for the Commission staff.

O P I N I O N

Otto A. and Ruth M. Knaak, dba Amervale Water Company (Amervale), request authority to abandon their public utility water system and to be relieved of the obligation of supplying water to 62 customers located in a four-square block area in the unincorporated community of East Quincy.

Public hearing was held before Administrative Law Judge J. W. Mallory in Quincy on May 31, 1978 and the matter was submitted.

Evidence was presented by applicant, by the district manager of the East Quincy Services District (District), by an engineer from the Hydraulic Branch of the Commission's Utilities Division, and by three customers of the water service.

History

In July 1955 Amervale Service Corporation was issued a certificate of convenience and necessity to establish a utility, to dba Amervale Service Corporation. On the 19th of October, 1971, the Commission authorized the sale of the company to Harry and Ruth Wuner to dba Amervale Service Corporation. On November 14,

1972, the Commission granted permission for the sale of Amervale Service Corporation to the Knaaks, at which time its name was changed to Amervale Water Company.

Testimony of Applicant

Otto A. Knaak testified substantially as follows: Amervale is a flat rate system. Water is supplied from a well located on a line separating two lots in the Amervale subdivision. The system was constructed in 1956 and no improvements have been made since that date. Mains are located along the rear property lines of the lots served making maintenance or replacement difficult because of limited access.

The Amervale subdivision is completely surrounded by District. District has mains that completely parallel the Amervale system and all houses in the subdivision can be served by District. District has ample water to serve 62 additional customers, having 4 wells and an 800,000-gallon reserve tank.

Amervale has no substitute source of water if its single well must be shut down for any reason. Amervale has no alternative electric generation plant or pumping facilities. A power failure would cause the system to shut down.

Mr. Knaak is nearing retirement and no longer desires to operate the system. Attempts to sell the system to District or to other buyers have failed. An independent appraisal of applicant's system was made at the request of District in connection with negotiations for sale of Amervale to District. That appraisal showed that the value of system on a reproduction cost new less depreciation basis is \$22,000, and on a capitalized income approach is \$14,000. The survey indicated that water mains are approximately 95 percent depreciated and are in need of replacement.

District has indicated to applicant its willingness to accept Amervale customers as customers of the District in the event the application is granted.

Applicants were denied an informal request to increase rates by letter from the Commission dated November 11, 1973. Applicants would not accept a rate increase in lieu of abandonment because substantial improvements to the system must be made and a rate increase would not provide funds for such improvements.

East Quincy Services District

The testimony of the general manager of District is summarized in the following statements:

District provides water to 380 connections in the East Quincy area. District operates 4 wells and has an 800,000-gallon storage tank. District has ample water and is willing to provide service to the present customers of Amervale.

District will assess each new residential customer a charge for installation of meters based on the size of the meter. The installation charge for a 5/8-inch by 3/4-inch meter is \$265 and for 3/4-inch meter is \$300. The meter would be installed along the front property line of each lot. Present customers of Amervale would be required to install pipe from the meter at their expense. The estimate of installation costs of pipe from the new meter location to a connection with existing house piping systems is in a range of \$150 to \$300.

District's current rate schedule is set forth below. 1/ The rates of District are higher than Amervale's flat rate. For example, the charge to a residential customer using 15,000 gallons of water per month would be \$7.30 under District's schedule versus \$4.85 under Amervale's flat rate.

Staff Report

The report of the Commission staff engineer is set forth in Exhibit 1. The staff investigation discloses the following additional facts:

The Amervale system is fed by a single well through a pneumatic pressure tank directly to 4-inch spiral-welded steel mains. The system has no storage capacity (other than that of the pressure

1/ Effective July 1, 1978, District's water rates are as follows:

<u>Meter Size</u>	<u>4,000 Gallons Current Minimum Per Month</u>	<u>4,000 Gallons New Minimum Per Month</u>
5/8	\$3.00	\$ 4.00
3/4	3.75	5.00
1	4.50	6.00
1 1/2	6.00	8.00
2	9.00	12.00

From 4,000 gallons to 15,000 gallons, the rate is 30 cents per thousand gallons.

From 15,000 gallons to 50,000 gallons, the rate is 40 cents per thousand gallons.

From 50,000 gallons and over, the rate is 50 cents per thousand gallons.

tank) and supplies none of the fire hydrants in the area. Fire hydrants are connected to 6-inch District mains located beneath this subdivision's streets.

District has existing mains laid beneath streets which front on all Amervale customers. It is willing and able to serve these 62 households but is apprehensive about possible litigation under Section 1501 of the Public Utilities Code. Therefore, District has declined to connect any Amervale customers unless applicants sign a release holding it harmless under said code. Applicants decline to do so for fear that they would be left with a small number of customers refusing to convert to District's service, which would further reduce revenues.

The staff estimates a cost of \$200 to \$400 for laying customer service lines from District's meters at the sidewalk to house piping, in addition to a meter connection charge of \$265. Amervale serves its customers via mains in an easement to the rear of the house. This easement has been encroached upon by numerous structures and would be nearly inaccessible for repair work. If Amervale is permitted to abandon service, this easement to each home doubtless would also be abandoned.

Based on the facts developed in his report, the staff engineer reached the following conclusions:

Applicants are unwilling operators. District is a willing operator. Amervale's plant is outdated and below par by today's standards. Applicants' profit level is probably too small to attract a buyer. Amervale's mains are of thin wall construction, and they may not be able to stand the stress of the 80 psi of District's system. Maintenance access to Amervale's easement is exceedingly difficult. A financial hardship may be placed on the homeowner by the necessary installation of a supply line from District's meter to his house, approximately 40 feet average

distance. That transition cost is compatible with the ambient standard of living and would secure to the homeowner an adequate water supply.

The staff witness included as part of his report estimated 1978 test year results of operation for Amervale that would produce a rate of return of 8.6 percent on depreciated rate base of \$6,000. An increase to \$8.50 per month from the present \$4.85 charge (75 percent) would be required to produce that rate of return.

The staff recommended that an interim order be issued authorizing applicants to abandon water service upon the satisfactory conclusion of one of the following alternatives, with final approval to be granted upon presentation of documentation of accomplishment.

- a. Reach agreement with District to serve all customers from the District's water distribution system.
- b. Reach agreement with the customers to accept the present distribution system and operate it as a mutual.

Public Witness Testimony

Three customers of Amervale testified at the hearing and others expressed their views in oral statements. Mr. Wilbur Stubblefield testified concerning his concern about the hookup charges he would be required to pay in the event he became a customer of District. Mr. Stubblefield requested that Amervale pay 50 percent of his hookup charges, which is estimated to total \$400. Mr. Fred Beyer testified that steps should be taken to improve efficiency of Amervale's operation, such as making a pump efficiency test. It is Mr. Beyer's position that Mr. Knaak should continue operations and that it is not "the Commission's business to bail him out of a bad deal." The witness indicated that none of Amervale's

customers are willing to form a mutual water company to take over operations of that system. John Marvin testified that customers of Amervale are split as to what they want done with the water company. Mr. Marvin's view is that ultimately all present customers of Amervale will become customers of District. Mr. Marvin believes that the cost to each customer would be less under today's prices than if the transfer to District takes place in the future.

Discussion

We concur in the analysis of witness Marvin that transfer of Amervale's customers to District is merely a matter of time. It is clear that Amervale's system is rapidly reaching the point where mains and the well pump will need to be replaced. The size of the system is not large enough to support a full-time employee. Applicants are nearing retirement and are unwilling to continue ownership of Amervale. Efforts to find a buyer for the system have failed. Present customers do not wish to form a mutual to operate the Amervale system.

On the other hand, District is ready, willing, and able to provide service to Amervale's customers. District's main parallels Amervale's system. District has adequate facilities to serve 62 additional customers. The only real impediment to the transfer of Amervale's customers to District is the hookup costs, which include District's charge for a meter and the cost of running pipe from the meter at curbside to the house water system. The total amount is estimated to approximate \$400. The hookup charges which would be incurred by Amervale's customers are the same as those incurred by all other customers of District and would not be excessive or discriminatory for Amervale's customers.

If we continue to attempt to have an unwilling operator continue to operate the Amervale system, and upgrade it, the customers are the eventual losers. We are of the opinion that the Amervale customers will be far better off in the long run if they are served by District. The Amervale system is essentially uneconomical.

It will be difficult for the system to obtain needed capital for improvements. As the system continues to deteriorate with age, the quality of service to the customers will suffer, while all we can do is issue futile orders. We are confident that the public interest is best served by allowing District to provide service to Amervale's customers.

The present 62-customer Amervale system is uneconomical and is not attractive to potential purchasers, nor do existing customers desire to operate it as a mutual. We have refused to certificate other small water companies that are completely surrounded by water districts.^{2/} In the circumstances applicants' request to discontinue service to their existing customers and abandon operations should be granted.

Findings

1. Amervale was constructed in 1956. No major changes in the system have been made since the system was installed. Maintenance and replacement of water mains are difficult because the mains are installed along the rear property lines of the lots served. The water mains and the well pump are nearing the end of their economic lives, and they may need to be replaced in the near future. Continued operation of Amervale without capital improvements to the system may result in poor and inadequate water service.

2. Amervale is a compact system serving 62 customers in a four-square block area in the unincorporated community of East Quincy.

3. District completely surrounds the Amervale system and District has installed mains in all streets in the Amervale

^{2/} For example, we stated in County Water Co. of Riverside, Inc. (Decision No. 87954 dated October 4, 1977 in Application No. 56623):

". . . There is less reason to certificate this particular project than others of comparable small size because in this instance the entire development is surrounded by or near municipal water districts, one of which has agreed to supply water to the project. We would expect if we were to certificate this project, eventually it would be absorbed into the district responsible for the water supply."

subdivision. Fire protection service in the Amervale subdivision is provided by District.

4. District is ready, willing, and able to provide water service to Amervale's customers. District has adequate facilities and water supply to serve such customers.

5. Mr. and Mrs. Knaak, owners of Amervale, are nearing retirement age and no longer desire to operate the Amervale water system or to make an additional capital investment in the system. The Knaaks' attempts to sell the system to District or to other buyers have failed. Customers of Amervale do not wish to form a mutual water company to take over and operate the Amervale system.

6. The major opposition of Amervale's customers to the abandonment of that system stems from the meter installation charges of District of \$265 and the cost to the householders of running pipe from the meter at curbside to the house water system, ranging from an estimated \$100 to \$250.

7. All other customers of District have incurred a meter installation charge. No connection charge was assessed to the present customers of Amervale. District's charges are not discriminatory.

Conclusions

1. The Knaaks should be authorized to discontinue service to their present customers and to abandon the Amervale system.

2. The authorized abandonment of the service should not take place until District has had sufficient time to connect all of Amervale's customers to its water system. Because winter weather conditions may interfere with completion of the hookups, the effective date of final discontinuance of service and abandonment of the Amervale system should be one year after the effective date of this order or at the time service is provided to all existing customers of Amervale by the District, whichever is sooner.

O R D E R

IT IS ORDERED that:

1. Otto A. Knaak and Ruth M. Knaak, doing business as Amervale Water Company, are hereby authorized to discontinue operations as a public utility water company and to abandon such operations.

2. Ordering Paragraph No. 1 is conditional upon the East Quincy Services District providing water service to the customers of the Amervale Water Company.

3. The effective date of final discontinuance of service and abandonment of the Amervale Water Company shall be one year after the effective date of this order or at the time service is provided to all customers by East Quincy Services District, whichever is sooner.

4. Upon the discontinuance described in the preceding ordering paragraph, all tariffs, maps, and other documents required to be filed by the public utility are hereby canceled.

The effective date of this order shall be thirty days after the date hereof.

Dated at San Francisco, California, this 25th day of JULY, 1978.

Robert Byrum
President
William Ayres Jr.
Eugene L. Steiger
Edmund D. Nicolle
Paul T. Deardorff
Commissioners