

Decision No. 89725 DEC 12 1978

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of David S. Adams & Sons, Inc., a California corporation, doing business as Paradise Estates Water Co., a public utility water company, for a Rate Increase Under Section 454 of the Public Utilities Code and request for emergency interim rate increase pending hearing.

Application No. 57808
(Filed January 18, 1978)

Jamie O. Harris, Attorney at Law, for Paradise Estates Water Co., applicant.
Harvey M. Freed, Attorney at Law, for utility customers, protestants.
William C. Bricca, Attorney at Law, and Robert H. Bennett, for the Commission staff.

O P I N I O N

David S. Adams & Sons, Inc. (DSAS or applicant), a California corporation doing business as Paradise Estates Water Co. (Paradise), requests interim authority to increase revenue by 200 percent pending hearing and an overall increase of 270 percent. Based on the allegations in the application and a preliminary report of the Commission staff dated April 1978, by Decision No. 88832 dated May 16, 1978 we authorized an interim increase of 100 percent over existing rates. The interim increase authorized was subject to refund pending public hearing and a final order.

Public hearing was held on July 20 and 21, 1978 at Inverness at which time the matter was submitted subject to filing of briefs 30 days after receipt of the transcript. Applicant presented testimony of its assistant secretary Robert Adams (Robert), its vice president Douglas Adams (Douglas), and John O. Nelson, general manager of the North Marin County Water District (NMCWD). The Commission staff presentation was made through two engineers.

Background

Paradise was formed in 1952 to provide water service to the Paradise Ranch Estates subdivision being developed by applicant. Until 1975 Paradise charged a flat rate \$2.75 per month to all customers in its service area.

On November 23, 1976 in Decision No. 86677^{1/} in Case No. 9916 after six days of hearing, this Commission declared Paradise to be a public utility subject to its jurisdiction. That decision established the current rates of \$6 per month service charge plus a \$.90 per 100 cf commodity charge, and ordered that the system be upgraded and that service be limited to customers presently being served.

On June 9, 1975 DSAS filed Application No. 55727, which was amended on April 26, 1977, requesting authority to transfer Paradise to West Marin Water Company, Inc. (West Marin) and for West Marin to issue 6,000 shares of common stock, par value \$10 per share, to DSAS as payment in full for the water system. In Decision No. 88828 dated May 16, 1978, the application was denied. That decision found that the system, constructed in 1952, has never shown a profit,^{2/} that the proposed transfer would not result in converting the system into a profitable operation, that the water system would lose borrowing power if it were transferred, and that the transfer was not in the public interest.

Applicant initially requested a revenue increase of about 200 percent by advice letter dated July 27, 1977. The Commission staff reviewed the request and determined that it was too high and suggested that a 100 percent increase might be acceptable. Applicant accepted the staff's advice and notified its customers that it was seeking a rate increase. Upon receiving notice, a significant number

^{1/} Decision No. 86677 traces the formation of Paradise by DSAS.

^{2/} According to the Commission's Finance Division report dated August 11, 1977, the system had a net adjusted operating loss of \$12,202 in 1976 and a loss of \$8,668 in 1977 (after elimination of extraordinary legal expenses of \$12,000 in 1976 and \$25,329 in 1977). Its adjusted gross income in 1977 was \$10,162. The adjusted balance sheet as of April 30, 1977 showed a minus net worth of \$60,442, the largest liability being \$110,885 representing advances from DSAS. The system has never shown a profit.

of customers objected to a rate increase and requested a public hearing. Because of the nature and extent of the customer reaction, the staff then recommended that in lieu of an advice letter increase, applicant file a formal application for the proposed rate increase.

In the application, it is alleged that the proposed rates would result in an increase in gross revenues for test year 1978 of \$26,527 or 273 percent of projected revenue at present rates.

Robert testified that as secretary he is the bookkeeper in charge of accounts payable and receivable. During his direct testimony, Robert revised the application and with minor exceptions, accepted the staff's estimates. Estimates of both staff and applicant will be discussed below.

On cross-examination Robert stated that: (1) in his opinion the Paradise system is in pretty good shape; (2) that they have been working on a proposal to sell the system to NMCWD; (3) that applicant has been in compliance with Decision No. 86677; (4) that applicant does not currently have a water purveyor's permit, (5) but that it is working with Marin County to obtain such a permit; (6) that chlorine residual and bacteriological tests have been filed with Marin County; and (7) that DSAS has not sold any property in Paradise Ranch Estates for over five years because of a court injunction.

Douglas testified that his Paradise responsibilities include a daily check of the system water levels, pump operation, and chlorine residuals. With respect to supply, he stated that in 1973 when the county of Marin advised that surface springs within the Paradise service area could not be used as a source of supply, applicant in 1974-75 drilled wells, installed new pumps, new tanks, chlorinators and did considerable work locating lateral valves and put in valve boxes. During this time period, Douglas stated that he was "talking to the property owners and various groups about the economic efficiencies of tying into North Marin County Water District", but that it appeared that people were not interested in

the intertie as a solution to the system's supply problem. He stated that in 1975 an attempt was made to obtain an appropriate supply from Fish Hatchery Creek, as recommended by the State Department of Health staff, but the request was denied. Subsequent to the denial for Fish Hatchery Creek water, all efforts of applicant have been toward annexation of Paradise by NMCWD. During the six months preceding this hearing, Douglas stated that he had received only one complaint call from a customer and two calls from the county and that pursuant to county health requirements he makes daily checks of the water's chlorine content.

On cross-examination Douglas stated that in 1973-74 DSAS invested between \$55,000 to \$60,000 and another \$10,000 to \$15,000 in 1975 on capital improvements for Paradise.

John O. Nelson testified that he was appearing as a result of a subpoena. Mr. Nelson (of NMCWD) sponsored Exhibit 9, a feasibility study for the takeover of Paradise by NMCWD. He estimated that it would take \$533,000 to upgrade Paradise to provide 100 percent fire protection and domestic service of A-1 quality. He stated that because applicant's system is typical of those in West Marin County, a bond issue could not be issued; that financing by a Farmers Home Administration program would in all probability be the best solution; and that such financing would be over a 40-year period and with such a favorable subsidy and loan the average monthly cost to customers would be \$20 per month in 1979, escalating to \$24 per month in 1983.

Results of Operation

A comparison of applicant's and staff's summary of earnings at present and proposed rates and results adopted are:

Paradise Estates, Inc.

Comparison of Company and Staff Summary of Earnings

	Applicant		Staff		Adopted
	Present	Proposed	Present	Proposed	
Operating Revenues	\$ 9,720	\$36,247	\$11,000 ^{1/}	\$40,620	\$26,000 ^{2/}
<u>Operating Expenses</u>					
Operation and Maintenance	25,807	25,807	16,110	16,110	16,110
Taxes Other Than Income	1,800	1,800	2,000	2,000	1,800
Depreciation	2,618	2,618	2,563	2,563	2,563
Income Taxes	-	-	80	2,070	509
Total Operating Expenses	30,225	30,225	20,753	22,743	20,982
Net Operating Revenue	(20,505)	6,022	(9,753)	17,877	5,018
Depreciated Rate Base	66,908	66,908	62,940	62,940	62,940
Average Rate of Return	Loss	9.0%	Loss	28.4%	8.0%

(Red Figure)

^{1/} Estimated operating revenues at present rates do not reflect the 100 percent interim increase granted in Decision No. 88832.

^{2/} The operating revenues adopted herein result in an 18.2 percent increase over the 100 percent interim adopted in Decision No. 88832.

Operating Revenues

DSAS originally estimated 1978 revenues based on a consumption projection of 539,893 cf per year, which is about 6 percent less than the 1975-76 two-year average consumption. The staff accepted applicant's method in making its study and report.

At the hearing, Robert stated that because of voluntary conservation, consumption for the first six months' of 1978 had dropped to 176,617 cf which would project to 353,234 cf for the full year. Based on these figures, applicant amended its consumption projection to 400,000 cf and revised its projected revenues at proposed rates downward to \$36,247.

Because the voluntary conservation resulting in decreased consumption can be partly attributed to the service provided, we believe applicant's original estimate, to which the staff concurred, is reasonable and should be adopted.

Operation and Maintenance Expense

DSAS estimated operation and maintenance expense using 1977 recorded data as a base and projected a 5 percent increase for test year 1978. Staff also used 1977 recorded data as a base, but made adjustments to reflect average-year conditions and possible electric power rate reductions. The differences were primarily caused by applicant including items not allowable for deductions as operating and maintenance expenses and some unusual expenses which the staff believed needed to be adjusted to reasonable average levels.

At the hearing, DSAS adjusted 1978 estimates to coincide with the staff's except for employee labor (including management salaries), contract work, bank payments, and the cost for the NMCWD Intertie Study.

A comparison of applicant's and the staff's estimated 1978 operation and maintenance expense follows:

Operation and Maintenance Expenses
Estimated Year 1978

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Applicant Exceeds Staff</u>	<u>Adopted</u>
Purchased Water	\$ 2,400	\$ 2,400	-	\$ 2,400
Power	2,800	2,800	-	2,800
Employee Labor	6,000	700	\$5,300	700
Materials	400	400	-	400
Contract Work	3,500	1,200	2,300	1,200
Management Salary	2,400	2,400	-	2,400
Office Supplies and Expenses	260	260	-	260
Insurance	2,377	2,230	147	2,230
Accounting	550	300	250	300
Legal	2,000	2,000	-	2,000
General Expense	220	220	-	220
Vehicle Expense	600	600	-	600
Office Rental	600	600	-	600
Interest	800	-	800	-
NMCWD Intertie Study	900	-	900	-
Loan Payments	-	-	-	-
Total	\$25,807	\$16,110	\$9,697	\$16,110

Purchased Water

Due to drought conditions in 1977, applicant had to truck water into its system and initially projected the same cost with a 5 percent increase for 1978 expenses. The staff believed that it will not be necessary to haul water in 1978 and therefore averaged the 1977 expenses over a three-year period. We believe the staff's estimate should be adopted for normal test year purposes.

Power

Applicant initially used power cost for 1977 and estimated an increase of 5 percent for 1978. The staff determined that Paradise's 1977 power cost is only the cost for water pumped directly from wells, which is about 87 percent of total consumption, the remaining 13 percent being that hauled in by truck. The staff therefore estimated that the power cost for 1978 should be the cost to pump the projected 1978 consumption of 539,893 cf less an anticipated reduction of 4.3 percent in Pacific Gas and Electric Company power rates.

Contract Work (Pump Repair)

Applicant used actual pump repair costs incurred in 1977. The staff considered that this was not an unusual amount and averaged it over a three-year period. We agree with the staff approach.

Insurance

Applicant's projected expense includes a premium for nonutility coverage based on its broker's estimate. Staff's estimate is based on insurance statements for only water company equipment and liability coverages and is reasonable. ✓

Accounting and Legal

The staff accepted applicant's estimate for 1978 legal expenses as reasonable.

The staff's estimate of accounting expenses is lower than applicant's. Applicant used 1977 expenses as a base and increased it by 5 percent. The staff was of the opinion that applicant's 1977 expense was too high because of the extra accounting work necessary to process a Department of Water

Resources' loan application, filing of an advice letter, and a subsequent formal application. We agree with the staff.

Vehicle

Applicant did not show any vehicle expense. The staff allowed a reasonable expense for use of vehicles necessary for operation of the utility plant.

Office Rental

Applicant did not show any office rental expense. Although applicant is using its corporation real estate office space to conduct water company business, the staff made a nominal allowance for office rental expense, which we agree is reasonable.

Expenses Not Allowable for Deduction

Applicant included the following items for deduction as operation and maintenance expenses which the staff did not allow.

1. Loan interest.
2. The cost for the NMCWD Intertie Study.
3. Bank loan payments.

At the hearing by Exhibit 3, applicant accepted the staff's exclusion of bank loan payments as operating expenses, but included the intertie study and loan interest.

Applicant argues that the loans in question were required to provide funds for past operational losses based on DSAS' general credit and that since the interest charges represent actual out-of-pocket cost to DSAS of maintaining its credit as required by Decision No. 88828^{3/} the amounts should be included as deductions from revenue for ratemaking purposes.

Neither the intertie study nor the interest expense are operating expenses for ratemaking purposes. First, the intertie study is a possible capital item that should be deferred until such time as it is determined whether the intertie will be made. At that time it should be capitalized and recovered as depreciation or expense if the project is abandoned.

^{3/} Decision No. 88828 dated May 16, 1978 in Application No. 55727 denied DSAS' request to transfer Paradise to a new corporation entitled West Marin.

Interest expenses are not considered operating expenses since they too are a below-the-line expense recovered through rate of return. Thus, the staff's approach conforms to Commission policy.

Employee Labor

Applicant initially estimated \$662 for employee labor. At the hearing applicant's estimate was revised to \$6,000, which was to include general maintenance, quality and tank monitoring, water sampling, meter reading, billing, bookkeeping, etc. In reviewing figures supplied by applicant, the staff deleted from employee labor that amount paid drivers to haul water and amortized that extraordinary expense over three years, added it to the cost of purchased water, and the balance rounded to \$700. We believe the staff approach, which was accepted by the applicant, is proper and should be adopted.

Management Salary

The staff allowed \$2,400 for management salaries, which was accepted by the applicant.

Taxes Other Than Income

DSAS projected higher taxes than did the staff. The staff used the company's actual 1977-78 ad valorem tax bill amounts which did not take into account possible reductions due to the passage of Article XIII-A of the California Constitution. At the hearing applicant adjusted downward its ad valorem taxes to reflect the effect of the passage of Article XIII-A.

Income Taxes

Applicant estimated no income taxes. Paradise is a part of DSAS. Based on data from the Finance Division's August 11, 1977 report, the value of the water plant in service is about 38 percent of DSAS' total corporate fixed assets. For 1978 at present rates, the staff allowed 38 percent of the minimum State Franchise Tax payment as State tax. We believe this is reasonable.

Depreciation

Applicant did not submit a computation for depreciation. The staff's estimate is a projection of the Finance Division's report dated August 11, 1977. The staff's calculation, shown below, is reasonable and will be adopted.

Estimated Year 1978

Item	Applicant	Staff	Applicant Exceeds Staff
Depreciation Reserve on Jan. 1	\$ -	\$21,228	\$ -
Annual Depreciation	2,618	2,563	55
Depreciation Reserve on Dec. 31	-	23,791	-
Average Depr. Reserve		\$22,510	

Utility Plant in Service

Applicant did not submit any computation for the 1978 plant value. The staff used the plant-in-service value calculated by the Finance Division's August 11, 1977 report as a base to project the plant values for 1978 and applied the 3 percent depreciation rate authorized by the Commission in Decision No. 86677.

Estimated Year 1978

Item	Applicant	Staff	Applicant Exceeds Staff
Plant on January 1	\$ -	\$85,431	\$ -
Annual Depreciation	2,618	2,563	55
Plant on December 31	-	82,868	-
Average Plant		\$84,150	

Rate Base

Applicant did not submit any estimate for working cash. Because all customers are metered and billed on a bimonthly basis, the staff recommended that a reasonable amount of funds should be allowed as working cash to compensate the utility for minimum bank account balance and to make payments against accounts payable in advance of receipt of revenues from its customers. Applicant did not submit an estimate for materials and supplies. The staff's recommended allowance is based on the actual expense recorded for materials and supplies in 1977. The staff's recommendations are reasonable and will be adopted.

Test Year 1978

Item	Applicant	Staff	Applicant Exceeds Staff
Avg. Utility Plant in Service	\$ -	\$84,150	\$ -
Less Avg. Depr. Reserve	-	22,510	-
Net Plant in Service	-	61,640	-
Plus Working Cash Allowance	-	800	-
Plus Materials & Supplies	-	500	-
Rate Base	\$66,805	\$62,940	\$3,865

Rate Design

Below is the present rate and the original proposed rate:

	<u>Present Rate</u>	<u>Proposed Rate</u>	
Service Charge	\$6 per month	\$18 per month	300 percent
Quantity Charge	\$.90 per Ccf	First 300 cf 300 cf and above	\$3.09/Ccf \$4.17/Ccf

At the hearing applicant amended the quantity charge to \$3.37 per Ccf for the first 300 cf and \$4.55 per Ccf over 300 cf. The staff agrees with the proposal for a lifeline quantity block of 300 cf and inverted rate blocks, but recommends that the lifeline rate be 25 percent less than rate above lifeline. We believe that the staff's approach is sound and should be adopted.

Service

Paradise currently serves water to 85 customers with a potential of 220 service connections. Water is obtained from five wells, four located within the service area.^{4/} Total capacity

^{4/} DSAS stated in the application that it previously used a combination of wells and surface sources, including springs. Surface sources were discontinued by order of Marin County Department of Health and the California Department of Water Resources. DSAS has attempted to increase water supply in recent years by drilling new wells (1974); applying for permit to divert water from Fish Hatchery Creek (denied by Department of Water Resources, 1975); and development of proposal to purchase water from NMCWD via a permanent intertie project (subject of pending Application No. 57484).

during the recent drought conditions was estimated by applicant at between 5,000 and 10,000 gallons per day. The distribution system consists of 10,250 linear feet of 4-inch diameter dipped and wrapped steel pipe and 16,400 linear feet of distribution main smaller than 4-inch diameter pipes. There are four distribution storage tanks with a total capacity of 90,000 gallons and three collector storage tanks with a total capacity of 21,000 gallons.

The application was protested by a significant number of Paradise customers. At the hearing counsel representing resident protestants introduced the following exhibits:

Exhibit 1: a document containing 67 names of customers protesting the rate increase.

Exhibit 16: a number of letters written to the Commission or to protestants' counsel outlining opposition to any rate relief.

Exhibit 17: a petition of some 36 owners or renters opposing the application.

It is protestants' position that the Commission should defer any rate increase until such time as applicant upgrades its water service and complies with Commission orders and other State law. They argue that the only improvements effected by applicant during the past seven years have been "the direct product of court injunctions, private litigation, county, State or PUC pressures", citing Decision No. 87609 dated July 19, 1977 in Application No. 55430 wherein we stated:

"Quality of service is an important consideration in the Commission's determination of a fair rate of return... After applicant has successfully implemented the approved plans and demonstrated an adequate level of service, an appropriate rate of return, and rates consistent with that rate of return, will be adopted." (Emphasis added.)

and Decision No. 88129 dated November 22, 1977 in Application No. 56285 wherein we stated:

"Water quality and service are important considerations in the Commission's determination of a fair rate of return. Since we anticipate a marked improvement in the future in the water quality and service provided by applicant, it would be unreasonable to set an ultimate rate of return at this time. Upon certification... that all improvements required by the to-be-approved plan have been completed, an appropriate rate of return...will be adopted."

Seven resident customers of applicant appeared in opposition to the application and gave testimony. The testimony given was to the effect that in using applicant's service they have experienced water outages and shortages, continued discoloration of the water affecting fixtures and appliances, high sedimentation rate, foul odors, inadequate water pressure, and overpowering smell of chlorine, turbidity in excess of federal safe water drinking limits, high mineral content, no regular line flushing, and inadequate fire protection. To support their testimony, the witnesses brought samples of discolored water and linen laundered in applicant's water.

Staff witness Chow testified that during his field investigation of applicant's facilities on March 20, 1978 he interviewed four customers who indicated there are no current major service problems and that considering the drought situation stated they were satisfied with applicant's service in 1977 with the exception of occasional overchlorination. He stated that water samples were taken and that with the exception of one sample from a connection at the bottom of the hill, which had a strong chlorination smell and was light brownish in color, all samples were free of bad taste, odor, discoloration, and sediment. Mr. Chow stated that in checking the water pressure, the three houses next to storage Tank No. 6 at the top of the hill had pressure readings of 12-16 psig and that one customer interviewed at that location stated that a booster had to be installed to increase pressure. Pressure at the lower elevations varied from 56-90 psig. Mr. Chow made the following observations regarding applicant's six redwood storage tanks:

<u>Tank No.</u>	<u>Capacity</u>	<u>Condition</u>
6	25,000 Gal.	This tank, located on top of the hill, is in bad condition. There are several running leaks at various heights on the sidewall and dripping leaks along the bottom edge. Also, several old leaks have been repaired with wooden plugs or patched with sheet metal.
5	15,000 Gal.	This tank is abandoned and not being used because there are too many leaking areas.
4	25,000 Gal.	The sidewall of the tank appears to be in satisfactory condition, but there are several dripping leaks along the bottom edge.
3	20,000 Gal.	No leaks are observed, but the sidewall of the tank is heavily stained from past overflows and there is one wooden plug.
2	20,000 Gal.	This tank is in good condition.
1	10,000 Gal.	This tank located near the bottom of the hill, has several dripping leaks along the bottom edge, but the sidewall appears to be in satisfactory condition.

On cross-examination Mr. Chow stated that the four customers interviewed were asked if there were any service problems such as water being turned off, whether any complaints had been filed with the company, and were requested to make any comment with respect to service. As stated before, there were no complaints. He stated that on the morning of the hearing he checked with Mr. Ed Stewart of the Environmental Health Services, Marin County, regarding a purveyor's permit and was told that there was no permit on file and that while there are a few system deficiencies, overall the quality of water now being provided by applicant is good. He stated that on March 9, 1978 he contacted the NMCWD and was advised that on February 6, 1978, applicant submitted two water samples for testing which showed no evidence of coliform contamination. Based on his personal observation and testing and the answers given by

the customers interviewed, he stated that he was satisfied that the water quality was good and there were no system pressure problems except at the higher elevations.

Also testifying on behalf of the Commission staff regarding service was Mr. Reginald Knaggs. Mr. Knaggs stated that the following data and information from prior staff reports and the NMCWD report were analyzed in reaching his conclusions and recommendations. He indicated they were:

1. 85 active metered customer connections.
2. 129 lots without water service.
3. 5 wells in operation.
4. 1 well disconnected.
5. 4 distribution storage tanks with a capacity of 90,000 gallons.
6. 3 collector storage tanks with a capacity of 21,000 gallons.
7. 5 wells with a maximum operating production of 13.8 gallons-per-minute in 1974 and a minimum operating production of 3.45 gallons per minute in 1977.
8. 6 booster pumps.
9. 26,650 feet of distribution mains ranging in size from 2-inch to 4-inch diameter. Various materials installed are 2-inch galvanized steel; 2-inch and 3-inch polyvinyl chloride; and 4-inch dipped and wrapped steel.

Mr. Knaggs stated that inspection of the physical plant and a review of operating conditions on July 6, 1978 shows that complaints on some earlier problems have been reduced as applicant has more closely monitored its system's operations; that water samples adjacent to the chlorinators had a detectable odor of chlorine, but other samples taken in the distribution system did not have a chlorine odor; that the chlorinators are

"Blue and White" brand with manual scale adjustments ranging from 1 to 6; and that the observed settings were approximately 3 (which is required to provide a chlorine residual in the lightly used and extended mains). Further: (1) the collector and storage tanks are of redwood construction and show an average amount of water loss; (2) that seam separations or breaks have been repaired; that water supply from the wells contains a high level of iron and manganese which have precipitated in the distribution mains and produces a dirty water condition; and (3) that when dirty water is reported to applicant, the main is flushed and normal service is restored. He also stated that water samples taken on July 6, 1978 did not show a dirty water condition when inspected and that conditions should be improved by mixing with a supplemental water supply from another source, i.e., NMCWD.

Mr. Knaggs stated that his review of customer complaints reveals that the primary customer concern is adequacy of supply. In this regard, during the two-year drought more than 260,000 gallons of water were trucked in 1976 and 1977 from the NMCWD. By correlating the amount of water hauled with the average use per meter, a supplemental supply of 35 gallons-per-minute would be needed to assure an adequate supply to the existing 85 connections. Mr. Knaggs believed that the only source from which a supplemental supply could be readily obtained is through the installation of a main from the present system of NMCWD to applicant's storage Tank No. 1 (at a cost of approximately \$25,000), which would require substantial replacement of mains between Tanks Nos. 1, 2, 3 and between 4 and 5, with no provision for fire protection.

Finally, with respect to the NMCWD plan, Mr. Knaggs stated that the \$533,000 estimated cost is in excess of the ability of DSAS to finance for water operations, and does not recommend these facilities be installed.

Mr. Knaggs concluded that applicant is in need of a supplemental source of supply for present connections; that such supplemental supply can be obtained from NMCWD for an approximate capital expenditure of \$25,000; that fixed charges for additional plant for this supplemental source would be \$3 per connection per month; and that the additional pumping cost would be 10 cents per 100 cf. He recommended that when and if such facilities are installed that applicant's rates be increased by these amounts.

All parties participating in this proceeding including protestants, staff, and county officials are in agreement that water supply in West Marin County is a scarce commodity and that the quality does not consistently meet health requirements. This was particularly true during times of drought as illustrated by the amount of water imported by truck during 1976-77 from NMCWD.

As pointed out by the staff witness Mr. Knaggs, a supplemental supply of 35 gallons-per-minute is necessary to insure an adequate supply to serve the present 85 customers and the only source from which this supplemental supply could be obtained is through the installation of a main from the present system of NMCWD to applicant's storage Tank No. 1 at a cost of approximately \$25,000.

From the evidence and testimony presented, we believe that while ultimate annexation by NMCWD is probably the most desirable fate for the applicant, the only alternative presently available to applicant to alleviate its supply problem is to effect an intertie with NMCWD as recommended by staff witness Knaggs. We will expect the applicant to pursue that alternative.

Notwithstanding our recommendation that applicant pursue the possibility of an intertie with NMCWD, the evidence herein shows that applicant's expenses of operation have been minimal; that attempts to improve supply have been ongoing; that service has been fair-to-good when the overall water supply situation in North Marin is considered; and that from 1952 until 1976 applicant provided service at \$2.75 per month, and that the system has never shown a profit.

Experience has shown that no public utility operation can endure under such circumstances. While it is true that the law does not guarantee a profit but extends only the privilege of an opportunity to make reasonable earnings, it is equally true that the law does not contemplate that a utility be forced to operate at a loss. Operation of the system requires that certain functions be performed. Applicant is entitled to earn a reasonable remuneration for the services performed in meeting the demands of its customers, plus a fair rate of return on its investment.

The rates authorized herein will produce a rate of return on depreciated rate base of approximately 8 percent. In contrast to the 10 percent rate of return, we have consistently found fair and reasonable for utilities the size of applicant, the rate authorized herein may seem unreasonably low. However, we have previously held that quality and service are important considerations in the determination of a fair rate of return. Accordingly, we believe that limiting applicant to a rate of return of 8 percent is a sufficient penalty pending an improvement of quality and service.

We conclude that to the extent authorized the application should be granted.

Findings

1. DSAS is the owner and operator of Paradise which serves 85 customers with a potential of 220 service connections.
2. Paradise's present rates were established by Decision No. 86677 dated November 23, 1976.
3. An interim increase of 100 percent over existing rates was authorized by Decision No. 88832 dated May 16, 1978.
4. Application to transfer Paradise to West Marin was denied by Decision No. 88828 dated May 16, 1978.
5. During 1976-77 applicant hauled more than 260,000 gallons of water by truck from NMCWD, and it added two storage tanks.
6. Though applicant's service has shown improvement, applicant is in need of a supplemental supply in order to adequately serve its present 85 customers with water that meets health department standards.
7. The only source from which a supplemental supply of water could readily be obtained is through the installation of a main from

NMCWD's system to applicant's storage Tank No. 1. Approximate cost for a tie-in with NMCWD is \$25,000.

8. Tie-in with NMCWD would provide a minimum level of service to existing customers.

9. Need still exists for the installation of valves in the water system so that at times of peak use the flow of water to lower tanks is shut off.

10. Need still exists for the development of plans and financing to replace existing undersized mains in the system.

11. An additional source of supply should be developed before new customers are connected to the system.

12. Applicant is in need of additional revenues, but the proposed rates set forth in the application are excessive.

13. The adopted estimates of operating revenues, operating expenses, and rate base for the test year 1978, as set forth in this opinion, reasonably reflect the results of applicant's operations in the near future.

14. A rate of return of 8 percent on the adopted rate base is reasonable.

Conclusions

1. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

2. Rates authorized herein should be designed to reflect a lifeline usage of 300 cf.

3. The total amount of the increase in annual revenue authorized by this decision is \$4,000; the rate of return on rate base is 8 percent.

4. The increase authorized by Decision No. 88832 dated May 16, 1978 should be made permanent.

5. Applicant should pursue the option of obtaining a supplemental supply by a tie-in with the NMCWD system, keeping the Commission advised of the progress.

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, David S. Adams & Sons, Inc. is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

2. David S. Adams & Sons, Inc. shall file, within ninety days after the effective date of this order, a plan to intertie with North Marin County Water District and Paradise Estates Water Co.

3. Until further order of this Commission, David S. Adams & Sons, Inc. shall limit service to those customers presently being served.

4. Rates collected pursuant to Decision No. 88832 dated May 16, 1978 need no longer be collected subject to refund.

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

Dated at San Francisco, California, this 12th day of DECEMBER, 1978.

Robert Batistoni
President
William J. ...
...
Charles D. ...
Walter T. ...
Commissioners

APPENDIX A

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Paradise Ranch Estates and vicinity.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$14.20	(I)
Quantity Rate:		
First 300 cu.ft., per 100 cu.ft.	\$ 1.87	(I) (C)
Over 300 cu.ft., per 100 cu.ft.	2.34	(I) (C)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.

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