

Decision No. 89777 DEC 19 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of)
BERTHA WRIGHT BERTILLION doing business)
as a public utility in the vicinity of)
Goodyears Bar, Sierra County, for)
authority to increase rates for water)
service, for authority to transfer the)
utility to GOODYEARS BAR WATER COMPANY,)
a California corporation and for)
authority for the corporation to issue)
1,500 shares of its common stock to)
BERTHA WRIGHT BERTILLION.)

Application No. 57305
(Filed May 13, 1977)



O P I N I O N

Bertha Wright Bertillion requests authority, as sole owner of a water utility

- (1) to increase rates for water service,
- (2) to transfer the utility's facilities to Goodyears Bar Water Company, a California corporation, and
- (3) for Goodyears Bar Water Company to issue 1,500 shares of its \$10 per share par value common stock to Bertha Wright Bertillion in exchange for the facilities to be transferred.

Rate Increase

Applicant's proposal for rate relief consists of an intermediate step to raise the rates from the present \$30 domestic service annual rate to \$72 and then to \$96 in three years. A notice was sent to each customer on July 13, 1977, which stated an application had been filed with the Commission requesting rate relief setting forth the requested amounts. Customers were invited

to correspond with the Commission to make known their views. This procedure is similar to the advice letter rate increase procedure currently utilized by the Commission and will suffice in this proceeding. No customer response was received by the Commission.

Applicant provides untreated water to fourteen customers for domestic and irrigation purposes in the unincorporated community of Goodyears Bar in Sierra County. Water is diverted from Woodruff Creek directly into an open ditch and thence into a settling basin. From the settling basin it flows into an inverted arch type of corrugated aluminum flume pipe that applicant installed in the earthen ditch in which the water previously flowed. There are four 3-foot diameter stand pipes at various locations alongside the ditch which are filled from the flume and from which customers' service pipes are supplied with water. The flume is uncovered throughout its entire length and the water is unchanged, except for settling, from raw creek water. However, the utility's filed Preliminary Statement, paragraph C, Description of Service states, "Flat rate service of untreated water from company's ditch system." From this, it is evident the utility has never held itself out to provide treated water to the customers.

Applicant spent considerable monies to improve the system over the past few years. Included in these expenditures was the cost of an engineering study for improvements to the water system that was never exercised and cost of improvements that were not capitalized. In addition, applicant experienced costs related to acquisition in excess of \$27,800 of which \$21,000 was entered on the books of the utility.

The staff has prepared a results of operation report pertinent to applicant's rate increase request showing the effect on net revenue for the estimated test year 1978 at the present rate, at the rate requested for an intermediate increase and at the rate requested at the end of three years. This report is accepted as Exhibit No. 1 in this proceeding. Applicant's showing is included as a part of the application. Both showings indicate a loss will be realized at both present and proposed rates. The staff estimates which are shown below will be adopted by this decision.

Description	Present Rates	First Proposed Rate Level	Final Proposed Rate Level
Operating Revenues	\$ 420	\$ 1,010	\$ 1,340
<u>Deductions</u>			
Operating Expenses	1,230	1,230	1,230
Depreciation Expense	500	500	500
Taxes Other Than on Income	50	50	50
Income Taxes	200	200	200
Total Deductions	1,980	1,980	1,980
Net Revenue	(1,560)	(970)	(640)
Average Depreciated Rate Base	21,530	21,530	21,530
Rate of Return	Loss	Loss	Loss

(Red Figure)

The major difference in the estimates presented by the staff and applicant is in the utility plant component of rate base. Since depreciated rate base is utilized to determine the amount of stock to be authorized as well as to determine the level of rates this decision will examine this item further later in this discussion.

The staff's estimate of revenues is based upon fourteen customers, including applicant, being connected to the facilities. Likewise, customer count was considered in determining certain expense

items such as salaries and billing costs. The one item of expense which might be questionable is the cost of insurance which was estimated by the staff to be \$440. However, applicant does pay the premiums and also provides raw creek water to the customers. The insurance payments are thus deemed necessary by applicant to provide a measure of protection for herself. The premium may be high when the few number of customers is considered. However, even at the highest of the two levels of proposed rates applicant will be losing in excess of the insurance costs and for this reason it is not considered to be an issue in this proceeding. For the same reason, the staff did not include any ad valorem taxes in its estimate as these taxes are apparently attached to the lands over which the ditch crosses and to make any separation of taxes would merely be reflected in a greater loss.

The proposed rates will not produce a return on investment for applicant but will enable applicant to operate without having to resort to out-of-pocket funds, excluding management salaries. The Commission will grant the request for increased rates to the first level but applicant will have to make another request at a later date to obtain the second rate level. However, applicant can make use of the advice letter procedure rather than a formal application at that time.

Transfer to Goodyears Bar Water Company

Bertha Wright Bertillion seeks authority under Sections Nos. 851-854 of the Public Utilities Code to sell and transfer and Goodyears Bar Water Company, a California corporation, to purchase and acquire control of the water utility facilities. Bertha Wright Bertillion will acquire, as a result of the transaction, 1,500 shares of Goodyears' \$10 per share par value common stock. Commission authorization of the proposed acquisition and stock issue is required by Sections Nos. 818 and 854 of the Public Utilities Code.

The Commission staff has been advised by the applicant that the principal reason for seeking incorporation is to utilize the limited liability available in corporate ownership of the water system.

According to the application, the depreciated rate base for both the years 1975 and 1979 is \$33,597. However, the staff has taken exception to some of the utility plant components of rate base and feels that \$21,530 as determined for its 1978 estimated data is more appropriate. A summary of the staff determination of rate base and its utility plant component is shown below.

Utility Plant

Recorded Utility Plant at 12-31-77 \$ 33,381.22

Adjustments:

Acquisition Cost	<u>(17,800.00)</u>
Uncapitalized Labor	5,733.00
Uncapitalized Materials	1,885.00
Uncapitalized Contract Cost	150.00
Legal Charges for Incorporation	<u>1,000.00</u>

Adjusted Balance at 12-31-77 24,349.22

USE 24,350

Average Depreciated Rate Base

Utility Plant	24,350 ^{a/}
Depreciation Reserve	<u>(2,920)</u>
Subtotal	21,430
Working Cash Allowance	-
Materials and Supplies	100
Subtotal	<u>21,530</u>
Advances for Construction	-
Contributions	<u>-</u>
Rate Base	21,530

(Red Figure)

a/ No additions or retirements were estimated for the year 1978.

Applicant Bertillion has practically rebuilt the water system since she acquired the facilities by authority granted by Decision No. 74518 dated August 13, 1968 in Application No. 49812 as amended. Applicant entered \$21,000 of a total in excess of \$27,800 on its books of record for acquisition costs. The \$27,800 represented expenditures for legal fees purportedly to search records to ensure easements, rights-of-way and water rights. In its estimates for rate base the staff included an amount approximately equivalent to 15% of the total of all other items of plant rather than the \$21,000 total entered by applicant. Thus a total of \$3,200 has been included by the staff and will be adopted by the Commission in this proceeding.

Applicant Bertillion spent \$1,271.75 for engineering studies for improvement of the water system only to decide the costs were too great to allow completion of the project. Thus the water treatment and enclosed pipe distribution proposal was scrapped in favor of the inverted arch-type pipeline which was eventually installed. This full amount was included by the staff in its estimates and will also be adopted by the Commission.

On the other hand, items in the total amount of \$7,768.00 which were expensed by applicant for employee salaries, materials and contracted costs should have been capitalized. The \$7,768 will be transferred to the corporation. In addition, at least \$1,000 will have been spent for legal and other items included by the staff is subject to adjustment for capitalization.

Goodyears is a California corporation and concludes Articles of Incorporation before these services are concluded. The maximum amount of 5,000 shares to issue only common stock is now outstanding, nor are any shares of the corporation indebtedness now authorized, issued or outstanding. The Articles of Incorporation was filed with the application in this proceeding.

CORRECTION

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THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

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Goodyears is a California corporation authorized by its Articles of Incorporation to issue only common stock, in the maximum amount of 5,000 shares at \$10 per share. No stock of the corporation is now outstanding, nor are any bonds, notes or other indebtedness now authorized, issued or outstanding. A copy of the Articles of Incorporation was filed with the original copy of the application in this proceeding.

The Commission will authorize issuance of the stock as requested by applicant, but it will accept the staff's determination of rate base as the basis for the authorization. Applicant Bertillion will find it necessary to adjust her own records in accordance with the foregoing discussion by substituting write-off or amortization of the excess acquisition costs for the previously expensed employee labor, materials and contracted costs.

Findings

1. The Commission finds the intermediate rate increase requested by the utility will not produce a return on investment but should be granted.
2. Transfer of the utility from Bertha Wright Bertillion to Goodyears Bar Water Company as proposed by the application would not be adverse to the public interest and should be granted.
3. It can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment.
4. The authorization granted shall not be construed to be a finding of the value of the rights and properties authorized to be transferred.
5. The proposed stock issue is for a proper purpose.

Conclusions

1. Applicant is in need of rate relief and neither intermediate nor the final level requested will provide a return on investment, but out-of-pocket expenditures will be covered.

2. The intermediate level of rates should be granted, but the utility will have to file, by Advice Letter, for the final level at a later date.

3. Applicant holds herself out to provide "Flat rate service of untreated water from company's ditch system," and has requested no change from this status.

4. Additional plant installed by applicant in recent years was installed with the intent to continue to provide flat rate untreated water service as pipes were not buried nor were treatment facilities installed.

5. Transfer from Bertha Wright Bertillion to Goodyears Bar Water Company, a California corporation, would not be adverse to the public interest and should be granted.

O R D E R

IT IS ORDERED that:

1. After the effective date of the order in this proceeding Bertha Wright Bertillion is authorized to file the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be five days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date of the revised schedule.

2. Goodyears Bar Water Company on or after the effective date hereof and on or before March 31, 1979, for the purpose specified in this proceeding, may issue not exceeding 1,500 shares of its common stock having a par value of \$10 per share.

3. Goodyears Bar Water Company, a corporation, shall file with the Commission the report required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

4. On or before February 15, 1979 Bertha Wright Bertillion may sell and transfer the water system referred to in the application to Goodyears Bar Water Company, a California corporation, according to the terms and conditions presented in the application.

5. Within ten days after the completion of the transfer, seller shall notify the Commission, in writing, of the date of transfer and of the date upon which purchaser shall have assumed operation of the water system. A true copy of the instruments of transfer shall be attached to the notification.

6. Upon compliance with all of the terms and conditions of this order, seller shall be relieved of her public utility obligations in connection with the water system transferred.

7. As a condition of this grant of authority, Goodyears Bar Water Company shall assume the public utility obligations of Bertha Wright Bertillion within the area served by the water system being transferred.

8. Bertha Wright Bertillion shall cause to be entered on her books and records the adjustments determined by the Commission staff in its determination of rate base in this proceeding.

9. On or before the date of the actual transfer Bertha Wright Bertillion shall deliver to Goodyears Bar Water Company, a corporation, and the latter shall receive and preserve all records, memoranda, and papers pertaining to the construction and operations of the water system authorized to be transferred.

10. The authority granted by this order to issue common stock will become effective when Goodyears Bar Water Company has paid the fee prescribed by Section 1904.1 of the Public Utilities Code which fee is \$50.

11. Within six months from the date of transfer of the utility operating system there shall be filed with the Commission the proposed journal entries to record the transfer on the books of purchaser.

The effective date of this order other than for ordering paragraph 10 shall be thirty days after the date hereof.

Dated at San Francisco, California, this 19th day of DECEMBER, 1978.

Robert Bateman
President
William G. Jones
Veronica L. Strang
Clifford W. Brock
Clare J. Deibel
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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By [Signature]

APPENDIX A

Schedule No. 2AR

ANNUAL FLAT RATE WATER SERVICE

APPLICABILITY

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

TERRITORY

In and in the vicinity of Goodyears Bar, Sierra County.

RATES

	<u>Per Service Connection Per Year</u>
For a single-family residential unit, or any regularly or intermittently occupied building, including premises.....	\$ 72.00
For each additional occupied unit, permanent or mobile, on the same premises and served from the same service connection	57.60

SPECIAL CONDITION

1. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance.