

Decision No. 89914 \* JAN 30 1979

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of Starlite Water Company, for an  
Increase in Rates and an Extension  
of Service to Include 23 Lots  
Adjacent to Present Service Near  
Bishop in Inyo County.

Application No. 57673  
(Filed November 7, 1977)

Farrell D. Freeman, for Starlite Water Company,  
applicant.  
R. M. Mann, for the Commission staff.

O P I N I O N

Starlite Water Company (applicant) requests authority to extend its present service area to include an additional 23 lots (referred to as Tract No. 127) and to increase existing rates to offset actual operating expenses incurred during 1977 and 1978.

Applicant is a corporation owned by Farrell D. Freeman, Patricia A. Freeman, Ray S. Freeman, and Hilda D. Freeman. Applicant's service area is located 8½ miles southwest of Bishop, California, ½ mile west of State Highway 168. The proposed new service area is approximately 13 acres divided into 23 lots immediately adjacent to the existing service area. The new service area is a development of Farrell D. Freeman and Ray S. Freeman (developer).

Applicant was authorized to provide service to some 44<sup>1</sup>/<sub>2</sub> lots pursuant to Decision No. 86866 dated January 18, 1977 in Application No. 56428. That decision provided that Commission approval be obtained prior to applicant's extending its mains to serve new customers and that the developer deposit \$500 per lot in a loss reimbursement fund to be used by the utility when expenses exceed revenues. That decision also established the present rates which became effective April 21, 1977.

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1/ Of the 44 authorized connections, there are 32 customers presently receiving service.

Applicant's present distribution system consists of 6-inch diameter PVC pipe with three wells delivering 68 gallons-per-minute to a 47,500-gallon underground concrete reservoir located at the system's highest elevation. At present the minimum gravity pressure to any lot is 20 psi. A booster pump is scheduled to be installed to ensure a minimum of 40 psi to all connections. The proposed extension will also utilize 6-inch PVC pipe to meet General Order No. 103. The proposed extension is to be financed by advances from the developer.

All of the present customers were notified of the proposed rate increase on July 10, 1978. The Commission received many letters of protest with requests for a public hearing. Hearing was held in the afternoon and evening on September 6, 1978 at Bishop before Administrative Law Judge Banks at which time the matter was submitted.

Ten customers appeared at the evening session of the hearing in protest of the proposed rate increase. One customer stated that he did not believe applicant should be required to operate at a loss. The others in attendance stated they were opposed to any rate increase because the present rates are higher than rates in the city of Bishop and any increase would make water costs ridiculous.

Applicant alleges that an increase is required because (1) there has been no fire protection revenue as anticipated as no fire district has been formed, (2) usage and resultant revenue has been lower than anticipated because of conservation, and the usage factor used to determine rates was based on customer consumption prior to their being charged for water, and (3) expenses for recorded year 1976 were \$231.14 or 9.8 percent greater than was estimated.

The application states that applicant has been operating at a loss since its inception; that a new well and pump is to be installed to serve the additional connections; that the cost of improvements is approximately \$10,000; that the improvements are to be financed by the developer; and that the developer has deposited \$4,000 in the form of certificates with an additional \$4,000 to be deposited when all present lots are sold.

Applicant's present and proposed rates are as follows:

Present Quantity Metered Rates:

First 1,000 cu.ft. ....	\$5.00
Next 2,000 cu.ft., per 100 cu.ft. ....	.35
Next 2,000 cu.ft., per 100 cu.ft. ....	.25
Over 5,000 cu.ft., per 100 cu.ft. ....	.20

Proposed Rates:

Service Charge

For 5/8 x 3/4-inch meter ..... \$4.50

Quantity Rates

First 1,000 cu.ft. ....	\$3.50
Next 2,000 cu.ft., per 100 cu.ft. ....	.40
Next 2,000 cu.ft., per 100 cu.ft. ....	.46
Next 2,000 cu.ft., per 100 cu.ft. ....	.53
Next 2,000 cu.ft., per 100 cu.ft. ....	.61
Over 9,000 cu.ft., per 100 cu.ft. ....	.70

Mr. Farrell D. Freeman testified on behalf of applicant.

He restated the allegations contained in the application and added that the increase sought would allow applicant to break even.

The following table shows applicant's results of operation for recorded 1976 and its estimates for the first and fifth year of operations at the proposed rates:

ESTIMATED OPERATING RESULTS  
AS OF END OF YEAR

	<u>Actual</u> <u>Operation</u> <u>1976</u>	<u>*First Full</u> <u>Year of</u> <u>Operation</u>	<u>Fifth</u> <u>Year</u>
Number of Customers (End of Year)	26	32	49
<u>Revenues:</u>			
Metered Water Revenue	\$2,381.78	\$4,598.00	\$7,930.00
Unmetered Water Revenue	-	-	-
Fire Protection Revenue	-	-	-
Total Revenues	2,381.78	4,598.00	7,930.00
<u>Expenses:</u>			
Source of Water Supply Exp. - Misc.	-	-	-
Purchased Water	-	-	-
Power and Fuel for Pumps	396.96	489.00	800.00
Operation and Maintenance - Labor	30.30	100.00	150.00
Operation and Maintenance - Materials	22.26	50.00	100.00
Operation and Maintenance - Contract Wk.	-	-	-
Office and Management Salaries	500.00	1,150.00	1,980.00
Office Supplies and Expense	16.40	50.00	75.00
Insurance Expense	-	-	-
Accounting, Legal and Other Services	50.00	50.00	100.00
General Expense	40.00	50.00	75.00
Vehicle Expense	69.00	85.00	138.00
Subtotal Operating Expenses	1,074.92	2,024.00	3,418.00
Depreciation Expense	949.97	1,267.00	1,267.00
Taxes	553.25	600.00	1,000.00
Total Expenses, Depr. and Taxes	2,578.14	3,891.00	5,685.00
Net Revenues	\$ (196.36)	\$ 707.00	\$2,245.00

(Red Figure)

\*First full year of operation after rate change is approved.

The Commission staff witness was senior utilities engineer Mr. Robert M. Mann. He testified that he investigated applicant's facilities, examined its records, and prepared a report which he introduced as Exhibit 1.<sup>2/</sup>

<sup>2/</sup> The rate base shown in this staff report is not shown in this decision as it is inconsistent with the provisions of Commission Decision No. 86866.

Consumption

As seen in the following table, applicant's records reveal the average consumption to be 2,000 cf per month. The following table shows that based on the average consumption, the average increase is about 51 percent.

<u>Usage 100 cu.ft.</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
0	\$ 5.00	\$ 5.00	0%
3	5.00	5.96	19
10	5.00	8.76	75
20 (Avg.)	8.50	12.76	50
50	17.00	24.76	46
100	27.00	44.76	66

The staff witness concluded that: (1) applicant has an adequate water supply to serve the additional 23 customers; (2) applicant should be authorized to enter into a main extension agreement with the developer for the proposed extension of service; (3) applicant should be required to continue the loss reimbursement program of \$500 per lot as ordered by Decision No. 86866; (4) applicant's operations remain restricted to the 44 existing lots plus the requested extension into Tract No. 127; and (5) future extensions of mains or additional customers to be served be approved by the Commission.

The staff recommends that:

1. Applicant be granted a certificate of public convenience and necessity to serve the 23 lots in Tract No. 127.

2. Applicant be required to continue the loss reimbursement fund by requiring the subdivider to provide \$500 per lot for each lot sold and report to the Commission and the developer on or before March 31 of each year indicating receipts and expenditures from the fund.
3. Applicant be authorized to increase its rates for metered water service, and be authorized to cancel its present rate, Public Fire Hydrant Service schedule.
4. Applicant be restricted to a total of 67 customers, i.e., those presently being served and the additional 23 proposed herein.
5. Applicant provide a minimum pressure of 40 psi throughout the service area and that the developer advance money to provide a booster pump and hydropneumatic tank.

At the hearing, applicant accepted the staff's estimates and recommendations contained in Exhibit 1. ✓

The record herein is clear. Applicant has been operating at a loss since operations began in 1976. However, revenues have been adequate to cover out-of-pocket operating expenses (cash), as noted in Ordering Paragraph 6, Decision No. 86866. The system has an adequate source of water supply, and there have been no service complaints filed with the Commission.

Decision No. 86866 dated January 18, 1977, which granted applicant a certificate, pointed out that the water utility was likely to lose money during the first five years of operation and that revenue from the sale of water would be insufficient to pay ordinary operating expenses. The decision also noted that the water system was not economically self-sufficient at that time and that it was unlikely to grow to a size where it would become self-sufficient in the near future. It was in recognition of these facts that the Loss Reimbursement Fund was established. Applicant accepted a certificate with full knowledge of these facts. Despite this, it applied for the present rate increase less than ten months after the original certificate was granted.

In view of the existence of the Loss Reimbursement Fund to cover out-of-pocket losses and in view of the fact that applicant was

fully aware that this water system was too small to be a money making enterprise, we do not agree that a rate increase at this time is justified.

We also note that this utility has not filed a report on the status of the Loss Reimbursement Fund, as required by Decision No. 86866. However, as out-of-pocket expenses, as specified in ✓ *At 9* Decision No. 86866, have been covered by revenues, the fund should be intact, with \$11,500 available to provide assistance if revenues drop below authorized expenses.

In Decision No. 86866 the Commission ordered that the water system be upgraded, if necessary, to meet the requirements of General Order No. 103, and that boosters be installed to provide a minimum of 40 psi pressure throughout the system. Applicant now states that the developer of the new extension will provide funds for a new well and a booster pump to ensure adequate water pressure throughout the system. The necessary plant improvements should be made without delay, before additional customers are added to the water system.

Findings

1. Revenues have been adequate to cover out-of-pocket (cash) operating expenses.
2. The utility has not presented adequate data to justify an increase in water rates at this time.
3. Applicant has shown it has the financial ability to serve the 23 additional lots in Tract No. 127.
4. Applicant should continue the loss reimbursement agreement with the subdivider wherein the subdivider will contribute \$500 per lot for each lot sold.
5. Applicant should not expand its service area beyond that authorized herein or make new connections without prior authorization of the Commission.

6. Applicant should require the subdivider of Tract No. 127 to advance the money to provide a booster pump and hydropneumatic tank in order to meet the minimum pressure requirement of 40 psi throughout the service area. This equipment should be installed before service is provided to the additional 23 lots.

7. The Commission has not received any service complaints.

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, applicant Starlite Water Company is authorized to extend service, under the provisions of applicant's Rule 15, Main Extensions, of its filed tariff schedules, to the additional 23 lots (referred to as Tract No. 127).

2. Within forty-five days after the effective date of this order, applicant shall file a revised tariff service area map, appropriate general rules, and sample copies of printed forms that are normally used in connection with customers' services. Such filing shall comply with General Order No. 96-A. The effective date of the revised tariff sheets shall be five days after the date of filing.

3. Applicant shall prepare and keep current the system map required by paragraph I.10.a of General Order No. 103-Series. Within ninety days after the effective date of this order, applicant shall file with the Commission two copies of this map.

4. The provisions of Ordering Paragraphs 5,6, and 7 of Decision No. 86866 are hereby extended to apply to Tract No. 127.

5. The application for a rate increase is denied without prejudice.



6. Except as modified by this order the provisions and restrictions of Decision No. 86866 remain in full force and effect.

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

Dated at San Francisco, California, this 30<sup>th</sup> day of JANUARY, 1979.

*Richard P. Howell*  
President  
*Vernon L. Stinson*  
*Charles T. DeLoach*

Commissioner John E. Bryson  
Present but not participating.

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Commissioners

Commissioner Leonard M. Grimes, Jr.  
Present but not participating.