

Decision No. 90877 OCT 10 1979

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application
of ARROWHEAD MANOR WATER COMPANY,
a California corporation, for
authority to execute a loan con-
tract with the State Department
of Water Resources for a \$884,000
loan and to increase rates for
water service.

Application No. 57533
(Filed August 23, 1977;
amended May 21, 1979
and May 29, 1979)

ARROWHEAD MANOR WATER COMPANY,
for an increase in rates.

Application No. 58868
(Filed May 15, 1979)

Albert A. Webb Associates, by
Reginald H. Knaggs, and Jean
Schottmer, for applicant.
Daniel J. Corrigan, for Department
of Water Resources, interested
party.
Alvin S. Pak, Attorney at Law,
C. Frank Filice, and Victor
Moon, for the Commission staff.

O P I N I O N

Arrowhead Manor Water Company, Inc. (applicant), a California corporation, provides water service to 547 flat rate and 43 metered customers within and adjacent to the unincorporated community of Cedar Glen, a mountain resort area which is located approximately one mile southeast of Lake Arrowhead in San Bernardino County.

Applicant's water system, created by the interconnection of two separate systems in 1957, is supplied water from a tunnel diversion, a horizontal well, and from connections to

the Crestline-Lake Arrowhead Water Agency (Water Agency). There is a variation of elevations within the service area in excess of 400 feet. Applicant and/or its predecessors have installed several steel tanks, a hydropneumatic tank, and booster pumps to provide water service. The bulk of the mains in the system are substandard and undersized.

Summary of Opinion

This opinion grants applicant an increase in rates designed to result in increased revenue of \$15,630, based on adopted 1979 test year results of operations. Fifteen hundred dollars (or 10 percent of the management salary expense for the test year) is disallowed because of applicant's offensive conduct dealing with customers.

Although applicant's system is in need of extensive improvements, and a loan from the Department of Water Resources (DWR) is the most realistic source of capital potentially available to finance the improvements, this opinion does not authorize applicant to finalize such a loan - and apply a rate surcharge for repayment - because we find applicant has not thoroughly thought out its requirements and has not explained with requisite specificity what modifications or improvements it proposes to undertake. Applicant is provided 60 days to file the needed information (outlined in this opinion) either by amending A.57533 or supplementing its showings; and that application remains open awaiting action on the part of applicant.

Background on A.58868

On September 1, 1978 applicant notified its customers of a proposed 98 percent general rate increase. A public meeting concerning this request was held on October 4, 1978. After that meeting, the staff suggested that applicant file for a lesser increase. Applicant filed Advice Letter No. 18 on April 16, 1979 requesting a general rate increase of \$16,331 (40.4 percent). This reduced request reflects applicant's deletion of approximately \$40,000 in system improvements and a lower rate of return (8.63 percent) on rate base compared to its earlier proposal.

The Commission docketed Advice Letter No. 18 as A.58868 and consolidated it for hearing with A.57533. After notice, these hearings were held on June 4, 1979 in the community of Twin Peaks located near applicant's service area, and on June 5, 1979 in the city of Los Angeles before Administrative Law Judge Levander. A.58868 was submitted on June 5, 1979. A.57533 was continued subject to receipt of late-filed Exhibit 5 by June 18, 1979 and for review of the design and engineering calculations supporting the design by the Commission staff, the DWR, and/or the Department of Health Services of the State of California (Health Dept.). The engineering calculations needed to verify the proposed system's capability to meet peak domestic flows and fire flows of at least 1,000 gpm at all fire hydrants on the system had not been supplied by applicant as of September 18, 1979.

A.58868 shows (a) a 1979 operating loss of \$5,915 at present rates, (b) net revenues of \$8,445 at proposed rates, and (c) an 8.63 percent rate of return on a \$97,911 rate base at proposed rates. A staff report, Exhibit 6, supported the requested increase.

Applicant's revised summary of earnings, Exhibit 2, shows (a) operating revenues at present and at proposed rates of \$42,138 and \$59,270, respectively, (b) an operating loss of \$6,232 at present rates, (c) net revenues of \$8,100 at proposed rates, and (d) an 8.3 percent rate of return on a \$97,900 rate base at proposed rates. The staff stipulated to the reasonableness of the revisions contained in Exhibit 2. Applicant included \$15,000 for management salaries in its total operating expense estimate of \$39,400 for 1979.

Background on A.57533

Applicant's distribution system contains approximately 73,860 feet of 2-inch diameter, or smaller, standard screw pipe, 17,306 feet of 2-1/2-inch to 3-1/2-inch diameter standard screw pipe, 11,970 feet of 4-inch diameter welded steel pipe, 1,400 feet of 4-inch diameter asbestos cement pipe, and 1,600 feet of 4-inch diameter plastic pipe. These undersized mains do not have the capability of providing sufficient domestic water supplies to all customers during periods of maximum demand at the minimum pressures required by the Commission's General Order No. 103, let alone meet the 1,000 gpm fire flow requirement for this system. A staff engineer testified that the condition of these mains indicates almost all of these mains need replacement in the very near future.

Applicant and/or its owners allege that they could not obtain financing from commercial lending institutions to carry out an extensive water system replacement program. Pursuant to

the Safe Drinking Water Bond Loan Act of 1976, applicant applied for and secured a \$910,520^{1/} loan commitment from the DWR to pay for (a) an engineering master plan; (b) replacement of water mains, most of which are less than two inches in diameter, with 49,780 feet of 6-inch diameter and 3,270 feet of 8-inch diameter mains; (c) rehabilitation of a 50,000-gallon water storage tank and the purchase of a 250,000-gallon tank; (d) installation of a hydropneumatic pressure system to eliminate low pressures near storage facilities; (e) two connections to Water Agency's system; and (f) to institute water conservation measures including the installation of 600 meters.

Applicant also proposes to replace 470 services and to install 89 fire hydrants.

The loan commitment requires semiannual payments of principal and interest at 5.5 percent^{2/} over a period of 35 years. Applicant is required to provide DWR with the following items prior to DWR's disbursement of the loan funds:

- "(1) Copy of the action taken by the Public Utilities Commission on your application to take the loan.
- "(2) Written proof that you will have sufficient revenue to repay the loan.
- "(3) Appropriate security instrument per Exhibit B of the contract.
- "(4) Copy of an agreement with a fiscal agent who will transmit the semiannual payments to us.
- "(5) Evidence that the proposed project has the support of a majority of the affected community."

^{1/} This amount, contained in the amended application, added \$26,520 for a three percent DWR administrative fee.

^{2/} DWR may be required to modify the interest rate based upon its bond issuance costs.

The following tabulation shows the proposed annual surcharges designed to yield \$58,900, approximately 145.8 percent of applicant's 1979 revenues at present rates, to amortize a \$910,520 loan:

<u>Size of Meter or Size of Service</u>	<u>Annual Surcharge^{c/}</u>
Residential ^{a/}	\$ 99.60
3/4-inch meter ^{b/}	149.40
1-inch meter ^{b/}	249.00
1½-inch meter ^{b/}	498.00
2-inch meter ^{b/}	796.80

a/ For service through a 5/8 x 3/4-inch meter or a 3/4-inch service.

b/ Applicable to metered service only.

c/ This surcharge is in addition to regular charges for water service. After the system has been fully metered, the surcharge may be based on water usage.

Applicant's consultant testified that the revised design being prepared might reduce the size of or eliminate some main replacements to lower costs (e.g., an 8-inch connection to a tank might be reduced to 6 inches, mains on cul-de-sacs not supplying fire hydrants might be reduced from 6 inches to 4 inches, and recent 4-inch main replacements might be utilized for domestic flows where fire flows could be supplied from adjacent new main replacements). The filed portion of Exhibit 5 shows a 400-foot reduction in proposed main construction from applicant's earlier estimate. Applicant is considering elimination of its proposal to meter all services.^{3/}

3/ This would require the consent of DWR based upon a future filing by applicant spelling out its rationale for not metering its customers.

DWR recognized that due to inflation^{4/} and/or unforeseen problems, more money may be required in the future. DWR's witness stated "if money is required and with the Commission's approval, we could possibly make further money available provided that applicant explains what happened, why this increased money was needed."

DWR intends to independently verify "that the proposed project has the support of the majority of the affected community, ..."

Applicant seeks to construct improvements in two phases in 1980 and 1981 to avoid costly construction under adverse (cold and rainy) winter climatic conditions. The revised schedules proposed by applicant are as follows:

- (a) Initiate engineering design, July 1979.
- (b) Initiate construction Phase I, January 1980.
- (c) Complete construction Phase I, January 1, 1981.
- (d) Initiate construction Phase II, January 1, 1981.
- (e) Complete construction Phase II, July 1981.

By letter dated June 20, 1979 (reference Item C), after receipt of a portion of Exhibit 5 (i.e., a map and a summary of cost and quantity information), the staff requested additional information needed to analyze the proposed design. Applicant's response states, in part, that:

- (a) Based upon a field count and review of a proposed sewer line installation map, 370 customers would be served from new Phase I facilities, 100 additional customers would be served from new Phase II facilities, and 120 customers would not be directly served from new facilities;

^{4/} The original estimates were based on 1977 costs. Applicant's revised Phase I construction cost estimate of \$782,340 was escalated by 51 percent to \$1,182,100 to cover contingencies, inflation, engineering, right-of-way, legal, administrative, and financing costs. The corresponding Phase II estimates are \$347,450 and \$572,800 (a 65 percent escalation).

- (b) No specific plans were made for replacement of facilities serving the remaining 120 customers, although future replacement by applicant "as growth occurs and customer demand dictates the location for replacement..." and through advances for construction or contributions in aid of construction from owners of five or more lots considering secondary subdivisions;
- (c) Fire hydrants would be located at approximately 500-foot intervals on the new mains, with exact locations based upon a field survey made with the local fire chief;
- (d) The proposed system is being modeled for computer analysis; and that
- (e) After the computer analysis has been completed, the data will be used for contractor design drawings for obtaining bids.

Customer Testimony

At the hearing, eight of applicant's customers indicated their recognition of the need for improving the water system, particularly as to fire flows. Several of them were confused as to the scope of the work proposed due to poor drawings (see Exhibit 3).

Some customers opposed metering as being wasteful, unnecessary, and costly. Others supported metering as an equitable method of apportioning costs. Several customers indicated the need to keep costs down due to customers' limited ability to pay for water. One customer stated that when the engineering was completed, she assumed and hoped that the Commission would mandate the improvements and that the staff would see that these improvements were properly made, according to specifications. She did not want to see customers' money being paid without getting the improvements (see RT 30).

Some of the customers attributed service deficiencies to earlier developers and/or owners of the system and commended the present owners for keeping the system operating as well as

they had, given the limited payment they received for their services and investment. Other customers were critical of the deficient operating and maintenance practices of the present owners.

One customer, circulating a petition related to applicant, testified that applicant's president called him over, "stood up, doubled up his fist, and said, 'Do you want to step outside?'" and that he made a sheriff's report concerning the incident (RT 48, 49). Another customer testified that in response to a bad leak complaint, applicant's president called her three times at night beginning at 12:30 a.m. in the morning, identified himself as her local water man, yelled at her, and used profane language. She also testified that applicant's president recently called to advise her that an outage due to a leak would not be fixed that night. In response, she stated that if the repair could not be fixed in a reasonable length of time, something would have to be done to provide water for her family. She further testified that applicant's president then yelled at her and threatened to shut off her water for three days and that she filed a sheriff's report (RT 49, 50). Applicant's witness did not dispute this testimony. He characterized these incidents as human responses to the pressures of operating a small water company and living in the community as opposed to the probable response of an employee of a large water company not living in its service area.

Rates

Applicant proposes to increase (a) annual flat rates from \$67.50 to \$95.00 for a single residential unit and from \$45.80 to \$65.00 for each additional unit, (b) metered rates by changing from minimum and quantity charge-type rates to a service charge and quantity charge-type rates form. There was no objection to establishment of the latter rate form and it will be adopted.

Discussion

Applicant is in need of general rate relief. However, it is essential that we consider the threatening and abusive conduct of applicant's president, actions on behalf of his public utility entity, in determining the level of that rate relief.

Accordingly, the rates authorized herein are based upon the following modifications to applicant's summary of earnings at proposed rates: (a) a 10 percent reduction of applicant's \$15,000 estimate for management salaries, and (b) an equal reduction in operating revenues. This reduction, reflected in Appendix A herein, will be accomplished by reducing applicant's requested annual service charges per metered service, its requested annual flat rate per single-family residential unit, and its requested annual flat rate for each additional single-family residential unit served from the same service connection by \$2.50 each.

This Commission does not accept applicant's rationalization for the conduct of its president towards two of its customers. Such conduct may violate the Penal Code, could result in the loss of applicant's telephone service, and is unacceptable for the conduct of any business, let alone for a business operating as a public utility serving the public trust.

8.
10/5/79

Simply put, the ratepayers should not contribute through rates the full \$15,000 annually for management salaries because given the utility president's conduct the utility and its customers are not receiving the full value and benefit of management's time

Also, Public Utilities Code Section 761 states, in part, that the "Commission shall prescribe rules for the performance of any service or the furnishing of any commodity of the character furnished or supplied by any public utility..."

Applicant and its officers are placed on notice that physical threats, threats to arbitrarily discontinue service,^{5/} verbal abuse, and harassing telephone calls to its customers are not acceptable methods for meeting their public utility obligations. Repetition of such unacceptable conduct can result in further Commission action under Chapter 11 of Division 1 of the Public Utilities Code (Violations).

Applicant has not submitted evidence on several issues, discussed below, needed to evaluate its request to enter into a loan agreement with DWR and to impose a rate surcharge.

^{5/} This does not include interruptions of service authorized by applicant's tariffs (e.g., for nonpayment of bills). ✓

A simple calculation showing that a 6-inch main can carry 1,000 gpm ignores the domestic requirements on affected mains. It would be reasonable to assume that some customers would attempt to wet down and protect their own properties from fire. There would be very large friction losses if fire flows and domestic flows were delivered through the proposed system. The availability of storage to meet fire flows after a period of peak domestic demand was not furnished. Tanks D and E at the upper portion of the system have capacities of 50,000 gpm each.

Applicant would have to develop the rate at which water could be delivered from various storage tanks and from its sources of supply (including two 100-gpm connections to Water Agency's system) to supply the calculations requested by staff. Applicant should indicate desirable and mandated minimum fire flow durations, and the capability of meeting those time limits for each subsystem.

If applicant's revised estimates are correct, the loan requested will be insufficient to carry out the Phase I improvements. Applicant should state which facilities would be installed and how many customers would be served from facilities built with the requested loan funds (e.g., describe which mains would be installed). The approximate location of fire hydrants should be shown on a revision of the Exhibit 5 map. Certain facilities, e.g., 20,000-gallon tanks X, Y, and Z, shown on the map are not listed in data furnished by applicant.

Applicant should clarify which existing facilities would remain in service. The proposed storage improvements and connections to Water Agency and certain transmission-distribution mains would benefit all of applicant's customers. However, some customers receiving service from undersized mains not proposed to be replaced would receive minuscule fire flow benefits from the proposed improvements.

If applicant requests and DWR approves a larger loan, an amendment to the application should be filed, including a revised surcharge proposal.

Applicant's consultant should evaluate whether any low pressure problems (less than 40 psi) are anticipated in older portions of the system due to pressure losses through new meters. Applicant proposes to install 600 new meters. Applicant should indicate how many of its existing meters need to be replaced.

There was limited opposition to the minimum proposed annual surcharge of nearly \$100. Applicant's revised estimate would require a minimum annual surcharge of approximately \$193 if its tentative design was adequate to meet fire flow and domestic requirements for Phase I and Phase II construction.

If applicant proposes to go forward with its loan application, it should be prepared to discuss the acceptability and willingness of its customers to pay higher proposed surcharges if a larger loan is sought, or to pay the requested surcharge for a substantially reduced construction program at a further hearing in this proceeding. Applicant should notify the Commission of its intent to proceed with the processing of A.57533 within sixty days of the effective date of this order.

Wage and Price Stability Guidelines

Resolution W-1781, effective August 17, 1975, authorized the rate increase requested by applicant in Advice Letter 15. That increase would yield a profit margin for test year 1975, using the definition of the Federal Council on Wage and Price Stability, of 21.7 percent. Recorded profit margins for 1976, 1977, and 1978 were 4.6 percent, 11.9 percent (including net nonutility income), and 0.3 percent, respectively. The 1979 summary of earnings at authorized rates tabulated below yields a 19.2 percent profit margin.

Summary of Earnings
(Adopted Year 1979)

Item	Authorized Rates
Operating Revenues	\$57,770
<u>Deductions</u>	
Operating Expenses	37,900
Depreciation	5,020
Taxes Other Than Income	3,750
Income Taxes	<u>3,000</u>
Total Deductions	49,670
Net Operating Revenues	8,100
Rate Base	97,900
Rate of Return	8.27%

Management salaries of \$15,000 were charged to applicant's operations in 1976, 1977, and 1978. We have reduced applicant's request of \$15,000 for management salaries (which includes funds for office work, operating, and maintenance services) to \$13,500 in the adopted summary of earnings.

It would not be reasonable to utilize these deficient pro forma profit margins^{6/} for 1976 to 1978 as a basis for evaluating authorized rates for compliance with the Federal Guidelines. It would be reasonable to compare the profit margin at authorized rates to the profit margin at the rates last authorized. Using the latter criteria, the proposed increase meets the guideline criteria. The authorized increase is needed to maintain applicant's financial viability and to avoid undue hardship.

At the time of hearing applicant's owners were considering obtaining a personal loan on an interim basis to make an emergency replacement of a badly deteriorated and leaking main on Hook Creek Road. This replacement should be promptly constructed. If payment for the replacement is not covered by a DWR loan, applicant may apply for an offset increase by advice letter.

Findings of Fact

1. Applicant proposed a 1979 estimated general rate increase of \$16,331 (40.4 percent) to eliminate operating losses and to yield a return on a \$97,911 rate base of 8.63 percent. Applicant's revised estimate, utilizing the same proposed rates, would yield operating revenues of \$59,270, net revenues of \$8,100, and a return on a \$97,900 rate base of 8.3 percent.

2. The staff adopted applicant's revised estimate.

3. Applicant's revised operating expense estimate includes management salaries of \$15,000.

4. The conduct of applicant's president has been unsatisfactory in carrying out applicant's public utility obligations. Applicant's estimate for management salaries can and should be reduced by \$1,500 (10 percent) for ratemaking purposes to give consideration to this conduct.

^{6/} Increases in purchased power and purchased water costs decreased applicant's profit margins in these years.

5. Applicant is in need of additional revenues, but the proposed increase of \$17,132 (40.7 percent) is excessive.

6. The adopted estimates previously discussed herein (as set forth in the tabulation on page 14) of operating revenues at authorized rates, expenses, and rate base for test year 1979 reasonably indicate the results of operations in the near future, excluding any DWR loan repayment rate surcharge. ✓

7. A rate of return on rate base of 8.27 percent is reasonable.

8. Revenues will be increased by \$15,630 (37.1 percent) by the rates authorized herein.

9. It is reasonable to adopt the rates set forth in Appendix A attached hereto.

10. The authorized rates set forth in Appendix A are just, reasonable, and nondiscriminatory. All other rates and charges to the extent that they differ from Appendix A are unjust and unreasonable.

11. The authorized rates set forth in Appendix A will yield a profit margin below the profit margin based upon applicant's present rates, authorized by Resolution W-1781, effective August 17, 1975. The profit margins attributable to applicant's 1976, 1977, and 1978 operations have all been substantially below the profit margin inferred from adoption of Resolution W-1781.

12. Applicant should provide additional information and/or amend A.57533 prior to issuance of a decision in that proceeding. If applicant desires to proceed, further hearings will be scheduled in that proceeding. The required information is set forth in the discussion herein.

13. Applicant can and should promptly construct the Hook Creek Road improvement discussed herein.

Conclusions of Law

1. A general rate increase should be granted to the extent set forth in the order which follows.

2. In evaluating compliance with the guidelines of the Federal Council on Wage and Price Stability, the profit margin derived from the rates authorized herein should be tested against the profit margin inferred from our adoption of Resolution W-1781. The increase authorized herein is in compliance with those guidelines. This increase is required to preserve applicant's financial integrity and to avoid undue hardship.

3. There is a need for prompt rate relief. The effective date of this order should be the date hereof.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Arrowhead Manor Water Company, Inc. (applicant) is authorized to file the rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the new and revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

2. Applicant shall proceed with the construction of the Hook Creek Road improvement discussed herein in 1979 if construction permits can be obtained on a timely basis, or early in the 1980 construction season. Applicant shall notify the Commission of the scheduled construction date within twenty days after the effective date of this order with a compliance filing presented to the Commission's Docket Office for inclusion in the formal file for A-58868 and a copy directed to the Commission's Hydraulic Branch. This rate increase shall be rescinded on August 1, 1980 if the Hook Creek Road improvement has not been completed by July 31, 1980.

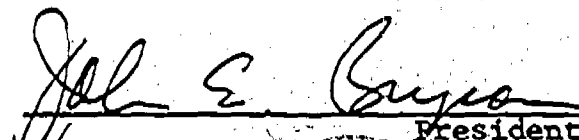
3. Applicant shall be required to inform the Commission, in writing, of its intent in processing A.57533 within sixty days after the effective date of this order. If applicant desires to go forward, it shall provide the information required for evaluation of its proposal as set forth in the discussion herein.

4. Proceedings in A.58868 are terminated. A.57533 remains open for further consideration.

The effective date of this order is the date hereof.

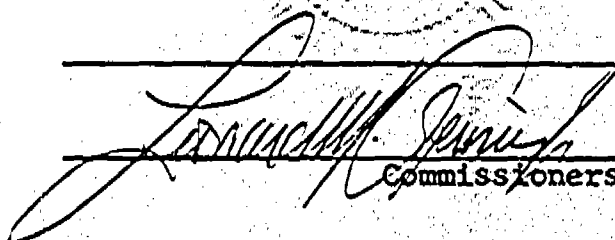
Dated OCT 10 1979, at San Francisco, California.

Commissioner Claire T. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.


President






Commissioners

APPENDIX A
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Schedule No. 1A

ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Cedar Glen and vicinity, located approximately one mile southeast of Lake Arrowhead, San Bernardino County.

RATES

	<u>Per Meter</u> <u>Per Year</u>		
Annual Quantity Rates:			
First 3,600 cu-ft., per 100 cu-ft.....	\$.60	(I)	(C)
Over 3,600 cu-ft., per 100 cu-ft.....	.70	(I)	(C)
Annual Service Charges:			
For 5/8 x 3/4-inch meter.....	72.50	(I)	(C)
For 3/4-inch meter.....	80.00		
For 1-inch meter.....	110.00		
For 1 1/2-inch meter.....	147.50	(I)	(C)
For 2-inch meter.....	200.00	(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 Rates, for water used during the year. (C)

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing the day service is first rendered and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, on the anniversary date, to pay prorated service charges in advance at intervals of less than one year, quarterly, in accordance with the utility's established billing periods for water used in excess of the prorated quarterly allowance under the annual service charge. (C)

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual service charge for the service. (C) Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

APPENDIX A
Page 2 of 2

Schedule No. 2RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Cedar Glen and vicinity, located approximately one mile southeast of Lake Arrowhead, San Bernardino County.

RATES

	<u>Per Service Connection</u> <u>Per Year</u>	
For a single-family residential unit, including premises	\$92.50	(I)
For each additional single-family residential unit on the same premises and served from the same service connection	62.50	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the service meter charge for the same period shall be made on or before that day. (C)
3. The annual flat rate charge applies to service during the 12-month period commencing the day service is first rendered and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, on the anniversary date, to pay prorated flat rate charges in advance at intervals of less than one year quarterly in accordance with the utility's established billing periods.
4. The opening bill for flat rate service shall be the established annual flat rate charge for the service.