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ORIGINAL

Decision No. 91739 MAY 6 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Edmund Ortmeier, Trustee, and)
Pocket Beverage Company, Inc.,)
Complainants,)

vs.)

Spring Crest Water and Power)
Company, a corporation,)
Defendant.)

Case No. 10226
(Filed December 29, 1976)

Albert A. Webb Associates, by Reginald H. Knaggs, for complainants.

Harry F. Chaddick and Fred R. Razzar, for defendant.

Anthony Burke and Rowland F. Sweet, for themselves; and Albert J. Lambert, for Riverside County Assessor; interested parties.

Robert C. Durkin and Richard Finnstrom, for the Commission staff.

O P I N I O N

This complaint was filed against Spring Crest Water and Power Company (defendant) on December 29, 1976 by Edmund Ortmeier, Trustee, and Pocket Beverage Company, Inc. (complainants) seeking an order requiring defendant to provide water service to complainants' properties in Tract No. 3380 and to make certain data available to complainants so that permits required for the development of the property could be obtained from Riverside County.

After proper notice, a public hearing on the complaint was held on March 18, 1977 in Palm Desert before Administrative Law Judge (ALJ) James D. Tante, and the matter was submitted upon the filing of letter briefs due May 2, 1977. ALJ Tante issued a proposed report in Case No. 10226 on August 3, 1977.

On July 22, 1977 First American Realty Company (American) filed Application No. 57468 seeking authorization to acquire control of defendant through acquisition of 75 percent of its outstanding stock. Because of the contemplated change in the ownership and operation of defendant, the submission of Case No. 10226 was set aside and the matter was combined for hearing with Application No. 57468. After notice, a combined hearing on both matters was held before ALJ N. R. Johnson on November 22, 1977 in Palm Desert, and the matters were submitted. At this latter hearing, testimony was presented on behalf of applicant by its president, on behalf of complainants by its real estate development consultant, and on behalf of the Commission staff by one of its engineers. Decision No. 88599 dated March 21, 1978 was an interim decision authorizing the transfer of control as requested in Application No. 57468, precluding defendant from adding new customers until further order of this Commission and requiring defendant to retain a competent engineer consultant to determine the dependable water replenishment available to it and prepare a plan to repair water delivery facilities, meter all water sources, and meter all customers. The results of the required tests, together with cost estimates and a construction schedule for implementing the required repairs and metering, were to be submitted to the Commission staff for review within 90 days after the effective date of the order. Such a report was prepared by W. R. Showalter and Associates, Inc. in October 1978. After review of the report and field investigations, the

staff recommended that further hearings on the complaint be held to ascertain under what circumstances additional customers could be served by defendant. As a result, an additional day of hearing was held before ALJ N. R. Johnson in San Bernardino on January 21, 1980, and the matter was resubmitted. Testimony was presented on behalf of defendant by its president, by its vice president and assistant secretary, and by an engineer from W. R. Showalter and Associates, Inc.; on behalf of the Commission staff by one of its engineers, and by seven existing or prospective customers of defendant. Complainants participated at this day of hearing through cross-examination of the various witnesses.

Position of Complainants

It is the position of complainants, as well as of those owning property in Tracts Nos. 2947 and 3380 who testified at the hearing, that they are suffering because the water company has not and is not being properly operated and maintained. According to complainants, the available water supply would support additional customers and such additional customers should be connected as soon as possible to make the water company a viable entity.

One of the residents in the area supplied a list (Exhibit 7) of 24 property owners who desire to construct homes in the area as soon as the water restriction is lifted. He further testified that there is adequate water to supply defendant's service area, as evidenced by several year-round running creeks. He further testified that he would estimate that the overflow he has observed from the lower reservoir would supply at least 10 additional customers.

Four property owners in defendant's service area testified that they would start construction within three months from the time the water restriction was rescinded.

Position of Defendant

Testimony presented on behalf of defendant indicated that:

1. American has acquired control of defendant as authorized by Interim Decision No. 88599.
2. The initial complaint was filed prior to the acquisition of defendant by American and since then service has improved.
3. In 1978 defendant's income was \$1,062.50, as compared to expenses of \$21,826.25.
4. In 1979 defendant's income was \$840, as compared to expenses of \$21,000.
5. Even with a substantial rate increase, defendant's losses would be about \$15,000 a year.
6. No one is going to subsidize defendant's operations.
7. The \$21,000 annual expense for 1979 included \$8,394 for depreciation, \$1,352 for repairs and maintenance, \$823 for insurance, \$1,700 for taxes, \$1,600 for electricity, \$253 for legal and professional fees, \$2,100 for interest, and \$5,592.60 for pumps and meters.
8. Defendant would be willing to sell the water system on a time purchase plan with a minimum down payment.
9. The production capacities from horizontal Wells Nos. 1, 2, 3, and 4 and vertical Well No. 4 total 45,000 gallons a day with a maximum daily demand of 6,600 gallons. This equates to a maximum daily demand of 4.6 gpm and on the basis of the current 15 connections the maximum daily demand per connection is 0.30 gpm.
10. A person or persons unknown to defendant manipulates a valve nearest to Reservoir No. 1 with the result that the water level in the pipe connecting Reservoirs No. 1 and No. 2 rises above the level of the output pipe of horizontal Wells Nos. 1 through 4 and thereby restricts the flow of these horizontal wells.

Position of Commission Staff

Testimony presented on behalf of the Commission staff indicated that:

1. Using the figures of the Showalter report, the present production sources will supply up to 45,216 gallons of water per day which could serve 102 customers with an average consumption of 440 gallons per day^{1/} during the month of maximum demand.

2. The fire flow requirement is 500 gallons per minute over a two-hour period, or 60,000 gallons, which can easily be met by the reservoirs of 100,000- and 200,000-gallon capacities.

3. The financing of additional production facilities recommended by defendant's consultant; if required, should be obtained by an advance of funds for special facilities as provided in defendant's line extension rule.

Discussion

It is obvious from the record that the present production facilities are adequate to supply water for approximately 100 customers without additional supplies. However, the distribution system, as presently operated, will not handle these additional customers unless some modifications are made. The primary problem appears to be the inability of defendant to provide adequate pressure to Pressure Zone No. 2 without increasing the water level in the pipe connecting Reservoir No. 1 and Reservoir No. 2 to a point that the gravity-fed horizontal Wells Nos. 1 through 4 will no longer feed into the system. The suggested remedial measure is to connect the horizontal wells to a new four-inch main running to Reservoir No. 1 and remove the service connection on the existing four-inch main presently connecting Reservoir No. 1 with horizontal Well No. 2. Such construction

1/ 440 gallons per day equals 0.3 gpm.

will permit the horizontal wells to discharge directly into Reservoir No. 1 and thus maintain the lower tank water level. A float valve on the discharge of the main is recommended to prevent overflow of Reservoir No. 1. The cost of such a main was estimated in mid-1978 to be about \$19,000. According to the staff witness, this amount should be increased by at least 20 percent, to \$22,800, to reflect inflation. Such a sum would place a heavy burden on prospective customers in the form of an added facilities charge or on existing and prospective customers in the form of a substantial rate increase to properly compensate defendant for the cost of such an installation.

It is noted that the original capacity of vertical Well No. 4 was 37.5 gpm, or 54,000 gallons per day, whereas the present capacity is only 9 gpm, or 12,960 gallons per day. It is further noted that the original depth of the well was 228 feet and that an obstruction was encountered at 147 feet. The mid-1978 estimated cost of removing the obstruction was \$2,880, which increased to reflect 20 percent inflation would equal approximately \$3,500. It is not illogical to assume that the removal of the obstruction would restore the capacity of the well to the original 37.5 gpm. Such a capacity should be ample to serve approximately 120 customers. Furthermore, a rearrangement of the piping from Reservoir No. 2 to Reservoir No. 1 to the general system would permit the maintenance of adequate pressure throughout the system and ample reserve capacity in the two reservoirs. The horizontal wells could be utilized as standby in case of pump and/or reservoir trouble at vertical Well No. 4. Should the removal of the obstruction in vertical Well No. 4 not have the desired result, it appears possible to make minor rearrangements and/or additions to the existing system to permit the addition to the system of the

24 prospective customers listed in Exhibit 7 at a nominal cost. The order that follows will provide for the removal of the obstruction from vertical Well No. 4 and the addition of 24 to 100 additional customers, depending on the water available from vertical Well No. 4 after the removal of the above-discussed obstruction.

Decision No. 68673 dated March 2, 1962 granted a certificate of public convenience and necessity to defendant to serve 67 lots in Tract No. 2947, and Decision No. 70397 dated March 1, 1966 expanded the service area to encompass an additional 109 lots, a total of 176 lots. According to the record, defendant presently has 15 customers and there are 24 prospective customers who desire service shortly after the lifting of the existing restriction of serving additional customers, a total of 39. It is axiomatic that the economic feasibility of certificating a water system of 176 customers is inapplicable to a system serving less than one-fourth the intended number. According to the testimony of one of defendant's witnesses, expenses for 1979 for only repairs and maintenance, insurance, taxes, and electrical power totaled approximately \$5,500, or about \$141 a year for each of the 39 present and contemplated customers. It is obvious that the existing \$6 a month flat rate charge will not even meet these expenses and that a very substantial rate increase is needed just to provide operating expenses. However, the matter of increasing rates was not addressed sufficiently at the hearing to form a basis for granting a rate increase at this time. It should be noted, however, that many water companies have been granted rate increases on the basis of advice letter filings when the need for such an increase is obvious. Defendant might give consideration to making such a filing or, if appropriate, to filing a formal application for rate relief.

Findings of Fact

1. Defendant presently provides service to 15 customers. Twenty-four property owners in defendant's service area have indicated plans to begin construction of homes in defendant's service area should the restriction on new customers be rescinded.

2. The present production facilities are capable of supplying sufficient water for approximately 100 customers without modification.

3. The distribution system, as presently operated, is unable to provide adequate water service to additional customers without modification because the output of the four horizontal wells is restricted when water pressure is increased to serve Pressure Zone No. 2.

4. Defendant's consultant recommends a remedial measure to overcome the restriction to the output of the horizontal wells by installing a new four-inch main from the horizontal wells to the lower reservoir at a present day cost estimated of at least \$22,800.

5. Such construction would either place a heavy burden on prospective customers in the form of an added facilities charge or on existing and prospective customers in the form of substantially increased rates to adequately compensate defendant for the cost of such construction.

6. Vertical Well No. 4 initially had an output of 37.5 gpm as contrasted to a present output of 9 gpm. The probable cause in the reduction in output is an obstruction at the 147-foot level which would cost approximately \$3,500 to remove.

7. Removal of the above well obstruction should restore the output capacity of the well to its original capacity.

8. Defendant should be required to remove the obstruction from vertical Well No. 4 and if the resultant flow exceeds 12 gpm, should perform such minor modifications and/or additions to the piping to provide adequate water pressure throughout the system with vertical Well No. 4 as the source of supply and horizontal Wells Nos. 1 through 4 to be used as back-up in case of trouble at vertical Well No. 4.

9. The output of vertical Well No. 4 should be divided by 0.30 to determine the number of customers the well will support, and defendant should be permitted to connect new customers up to this number.

10. The above findings are based on an average of 440 gallons per day during the month of maximum demand. Should experience indicate the 440-gallon-per-day figure is inapplicable, the maximum number of customers to be served should be adjusted accordingly.

11. Should the flow from vertical Well No. 4 be 12 gpm or less after the removal of the obstruction, defendant should perform such minor modifications and/or additions to the distribution system necessary to permit the addition to the system of the 24 prospective customers listed in Exhibit 7.

12. The system modifications, repairs, and/or additions to be required of defendant, as set forth in Findings 8 through 11, are reasonable and necessary to permit the addition of new customers.

Conclusions of Law

1. Defendant should be ordered to remove the obstruction from vertical Well No. 4 and, depending upon the resulting flow of this well, modify its distribution system so that all existing and future customers can be served from this facility or the present customers and up to 24 additional customers can be served from vertical Well No. 4 and horizontal Wells Nos. 1 through 4.

2. If the flow from vertical Well No. 4 is 12 gpm or less after the obstruction is removed, defendant should be authorized to add up to the 24 new customers set forth in Exhibit 7.

3. If the flow from vertical Well No. 4 is more than 12 gpm after the obstruction is removed, defendant should be permitted to provide service to a maximum number of customers determined by dividing the flow from vertical Well No. 4 by 0.30.

O R D E R

IT IS ORDERED that:

1. Within sixty days after the effective date of this order, Spring Crest Water and Power Company (defendant) shall remove the obstruction at the one hundred and forty-seven-foot level from vertical Well No. 4 and report to the Commission the measured flow obtained after removal of the obstruction.

2. If the output of vertical Well No. 4 exceeds twelve gpm after the removal of said obstruction, defendant shall perform such minor modifications and/or additions to its distribution system to serve Pressure Zones Nos. 1 and 2 with vertical Well No. 4 as the primary source of supply, and defendant is authorized to serve in its service area, without further authorization of this Commission, a total number of customers equal to the gpm output from vertical Well No. 4 divided by 0.30.

3. If the output of vertical Well No. 4 is twelve gpm or less after the removal of the obstruction, defendant shall perform such minor modifications and/or additions to its distribution system to serve its existing customers and up to the 24 additional customers listed in Exhibit 7 from vertical Well No. 4 and horizontal Wells Nos. 1 through 4.

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

Dated MAY 6 1980, at San Francisco, California.

Julian E. Bryan
President
Veron L. Sturgeon
Robert W. Howell
Clair J. Sedwick
Samuel J. Genies
Commissioners