

Decision 97-10-021 October 9, 1997

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of Greenbelt Water Company  
(U-158-W) for an order authorizing it to  
increase rates in its service territory.

Application 97-06-039  
(Filed June 26, 1997)

**OPINION**

**ORIGINAL**

**Summary of Decision**

This decision grants Greenbelt Water Company (Greenbelt) a general rate increase of \$25,214 or 123% to cover increased operating expenses since its last general rate increase in 1984.

This increase is based on an operating ratio of 88.19%<sup>1</sup> for test year 1997.

**Regulatory History of Greenbelt**

On April 7, 1970, the Commission issued Decision (D.) 77059, in Elizabeth A. Davis et al. v. John S. and Evelyn Cavanaugh (Case 8967), which found that defendants John and Evelyn Cavanaugh were operating a public utility water system near Aptos in Santa Cruz County. Subsequently, the Commission issued D.91980 which authorized John and Evelyn Cavanaugh to form Greenbelt.

**Safe Drinking Water Bond Act Loan and I.96-09-002**

In 1980, Greenbelt served approximately 73 customers from an aged, decaying water system. At that time, the Cavanaugh's requested and were granted a Safe Drinking Water Bond Act (SDWBA) loan from the California Department of Water

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<sup>1</sup> The summary of earnings table included in Appendix A of the application shows an operating ratio of 14% which was calculated by dividing net revenues by operating expenses before taxes. The traditional procedure for calculating operating ratio is by dividing the net expenses including taxes by gross operating revenues.

Resources (DWR). By D.82-07-113, the Commission approved a 35-year loan to Greenbelt of \$128,440 and a commensurate surcharge on all water customers' bills.

In July of 1994, DWR alerted the Commission that Greenbelt was delinquent in the repayment of the SDWBA loan. At that time, Greenbelt had missed three semi-annual loan payments for a total delinquency of \$18,052.96. In addition, utility customers began to inquire about payment of the surcharge to Greenbelt and Greenbelt's repayment of the loan to DWR.

Staff Auditors from the Commission Advisory and Compliance Division made a preliminary investigation into the DWR allegations and issued letters to Greenbelt on January 31, April 11, and April 26, 1996 outlining their conclusion. Staff concluded that Greenbelt was delinquent by \$54,358 in payments to its SDWBA reserve account. Staff also encountered numerous violations of Commission orders and procedures, including failure to maintain an account with the fiscal agent for deposit of surcharge revenues (until Commission staff helped establish such an account in April of 1996) and failure to keep accounts in accordance with the Uniform System of Accounts.

Based on staff investigation, the Commission, on September 4, 1996, instituted an investigation on its own motion ((I.) 96-09-002) into whether Greenbelt is unable or unwilling to serve its ratepayers, is incapable of financial management, or is unresponsive to the rules, orders, and decisions of the Commission.

On November 26, 1996, Administrative Law Judge Weiss conducted a prehearing conference (PHC) in I.96-09-002. Statements made during the PHC indicated that the Cavanaugh's due to reasons of ill health were unable to run the system and that the system was being operated by Greenbelt customers Michael Mills (Mills) and Opal McAllister (McAllister). While Mills and McAllister were not paid any fees for operating the system, they were not being charged for the water service they received from Greenbelt. Also, during the PHC, it became apparent that Greenbelt's water system was in need of repairs and improvement. The Cavanaugh's agreed to cede control of the finances and operations of Greenbelt to Mills and McAllister pending a final decision in I.96-09-002. The Cavanaugh's also agreed that, pending a final decision in I.96-09-002, Mills and McAllister shall do all things necessary to manage the finances

and the operations of Greenbelt, including establishing and maintaining an adequate system of books and records, making necessary repairs to the water system and remitting surcharge payments to the fiscal agent for the SDWBA loan.

In January 1997, John Cavanaugh, Mills, McAllister, and the Director of Commission's Water Division signed a stipulation (in I.96-09-002) in which they agreed, among other things, to the following:

- "Pending a final decision in this matter, John Cavanaugh and Evelyn Cavanaugh shall cede control of the finances and operations of Greenbelt Water Company, Inc. to Michael Mills and Opal McAllister."
- "Pending a final decision in this matter, Michael Mills and Opal McAllister shall do all things necessary to manage the finances and the operations of Greenbelt, including, but not limited to, establishing and maintaining an adequate systems of books and records, making necessary repairs to the water system and remitting surcharge payments to the fiscal agent for the Safe Drinking Water Bond Act loan."
- "Staff shall begin the process for consideration of a rate increase for Greenbelt. It is the understanding of all signatories to this Stipulation that, prior to making any equity payments to John S. Cavanaugh or Evelyn Cavanaugh or any other shareholders of Greenbelt Water Company, Inc., any excess of revenues over expenses and appropriate reserve accumulation for repairs and improvements, should be used to pay against the past due balance for the Safe Drinking Water Bond Act loan."

### **Application**

As agreed to in the stipulation, Greenbelt is currently managed by Mills and McAllister.

On June 26, 1997, Mills and McAllister (applicants) filed this application requesting a general rate increase for Greenbelt of \$25,214 or 123.08% to cover increased operating expenses since its last general rate increase in 1984. Applicants also request that this application be consolidated with I.96-09-002.

### **Greenbelt's Operations**

Greenbelt is a Class D water utility currently providing residential flat rate service to 80 customers.

Greenbelt's water supply comes from two wells, each 500 feet deep with 6-inch diameter casings. Greenbelt has three steel tanks with a total storage capacity of 162,000 gallons. There are approximately 19,000 feet of transmission and distribution mains ranging in size from 2 inches to 8 inches in diameter. Since Greenbelt has not filed an annual report since 1992, it is difficult to establish the current net plant. In addition, the records maintained by the Cavanaugh's have been inadequate to establish a rate base for Greenbelt. Accordingly, applicants request a rate increase based on Greenbelt's estimated operating ratio.

#### **Notice of the Application**

Notice of the application appeared on the Commission's daily calendar on June 27, 1997. In addition, the staff of the Commission's Water Division mailed a notice of the filing of the application to each customer on July 24, 1997.

No timely protest to the application has been filed.

#### **Discussion**

As a practice, we establish rates for Class C and D water utilities based on a fair rate of return on a utility's rate base or an operating ratio, whichever is greater,<sup>2</sup> however, because adequate financial data required to establish Greenbelt's rate base is unavailable, we must establish Greenbelt's rates based on its operating ratio.

The Commission has used an operating ratio of between 92% to 93% for setting rates for transportation companies, and has used an operating ratio of 80% for small water companies.

The requested operating ratio of 88% would provide higher gross revenues to Greenbelt than the operating revenues provided by an operating ratio of 92% or 93%.<sup>3</sup> However, given the unusual circumstances of this dilapidated semi-abandoned, and debt-beset small water system, an operating ratio of 88% is not unreasonable.

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<sup>2</sup> D.92-03-093, March 31, 1992, Ordering Paragraph 8.

<sup>3</sup> A numerically higher operating ratio provides a lower rate increase than a numerically lower operating ratio.

**Table 1**  
**Greenbelt Water Company**  
**Summary of Earnings**  
**Test year 1997**

	At Present Rates	At Proposed Rates
1. Operating Revenues		
a. Flat Rate Service Revenue	\$ 20,486	\$ 40,900
b. Other Revenue		<u>4,800</u>
2. Total Operating Revenues	\$ 20,486	\$ 45,700
3. Operating Expenses		
a. Purchased Power	\$ 9,600	\$ 9,600
b. Employee Labor	0	0
c. Materials	300	300
d. Contract Work	500	500
e. Transportation	600	600
f. Management Salaries	12,000	12,000
g. Office Supplies & Expenses	1,200	1,200
h. Professional Services	4,000	4,000
i. Insurance	3,500	3,500
j. General Expenses	700	700
k. Uncollectibles	500	500
l. Regulatory Commission Expenses	850	850
m. System Improvement Account	<u>4,800</u>	<u>4,800</u>
4. Total Operating Expenses	\$ 38,550	\$ 38,550
5. Depreciation Expense	0	0
6. Taxes Other Than Income	0	0
7. Income Taxes	<u>800</u>	<u>1,753</u>
8. Total Deductions	\$ 39,350	\$ 40,303
9. Net Revenue	\$ (18,864)	\$ 5,397
Operating Ratio (Line 8 + Line 2)	1.92	0.88

While we believe that a rate increase is justified for Greenbelt, we think that consolidating this application with I.96-09-002 will only delay the much needed system improvements. We will deny applicants' request to consolidate this application with I.96-09-002.

#### **Findings of Fact**

1. Greenbelt requests a general rate increase of \$25, 214 or 123% to cover increased operating expenses since its last rate increase in 1984.
2. Greenbelt is operating at a loss.
3. Greenbelt's current owners have been unable to maintain and operate the system effectively.
4. Mills and McAllister have been operating the system for the Cavanaugh's.
5. Greenbelt's water system is in need for immediate improvements.
6. The Cavanaugh's have agreed to cede control of finances and operations of Greenbelt to Mills and McAllister.
7. Adequate data is unavailable to establish a rate base for Greenbelt.
8. Applicants request that the rate increase be authorized on the basis of Greenbelt's operating ratio.
9. If the rate increase is authorized, Greenbelt's operating ratio would be 88%.
10. The Commission has used an operating ratio of between 92% to 93% to set rates for transportation companies. However, given the condition of Greenbelt's system and the need for improvements, an operating ratio of 88% is not unreasonable.
11. Applicants request that this application be consolidated with I.96-04-002 because the problems related to the system were discussed during the PHCs in I.96-04-002.
12. Consolidating this application with I.96-09-002 would unnecessarily delay the much needed rate increase.
13. No timely protest to the application has been filed.

**Conclusions of Law**

1. Greenbelt should be granted the requested rate increase.
2. Applicants' request to consolidate this application with I.96-09-002 should not be granted.
3. Since Greenbelt is operating at a loss at current rates, this order should be made effective immediately.

**O R D E R**

**IT IS ORDERED that:**

1. Greenbelt Water Company (Greenbelt) is authorized to file the revised tariff schedule attached to this order as Appendix A. This filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the filing. The revised schedule shall apply to service rendered on or after the effective date.
2. Since all the issues raised in this proceeding have been addressed, Application 97-06-039 is closed.

This order is effective today.

Dated October 9, 1997, at San Francisco, California.

P. GREGORY CONLON  
President  
JESSIE J. KNIGHT, JR.  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
RICHARD A. BILAS  
Commissioners

Appendix A  
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Greenbelt Water Company  
Present and Proposed 1997 Rates

Schedule No. 1  
General Metered Service

RATES	Per Meter Per Month	
	Present	Proposed
Service Charge:		
For 5/8 x 1/4-inch meter.....	\$10.40	\$20.76
For 1/2-inch meter.....	11.40	22.76
Quantity Rates:		
First 300 cu. ft., per 100 cu. ft.,...	\$ 0.44	\$ 0.88
Over 300 cu. ft., per 100 cu. ft.,.....	0.58	1.16

SPECIAL CONDITION:

1. All bills for metered service are subject to a \$5.00 per month surcharge. This surcharge will be placed into a separate account from which funds will be used exclusively for water system improvements.



Appendix A  
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Greenbelt Water Company  
Present and Proposed 1997 Rates

Schedule No. 2R  
Residential Flat Rate Service

RATES:	Per Service Connection Per Month	
	Present	Proposed
For a single-family residential unit.....	\$21.34	\$42.60

SPECIAL CONDITIONS:

1. The above flat rates apply to service connections not larger than 1-inch in diameter.
2. All bills for residential flat rate service are subject to a \$5.00 per month surcharge. This surcharge will be placed into a separate account from which funds will be used exclusively for water system improvements.

(END OF APPENDIX A)