

Decision No. 41678

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**ORIGINAL**

In the Matter of the Application  
of DESERT HOT SPRINGS WATER CO.,  
a Corporation, for Certificate of  
Public Convenience and Necessity;  
for Establishment of Rates; and for  
Issuance of Stock.

Application No. 27635

Launer and Chaffec, by Albert Launer  
for Applicant.

O P I N I O N

Desert Hot Springs Water Co., a California corporation, in its amended application asked this Commission for a certificate of public convenience and necessity to operate a public utility water system to serve the community of Desert Hot Springs, in Riverside County; for the establishment of rates for the service to be rendered; and for <sup>an</sup> order approving and authorizing the issuance of 1,000 shares of the capital stock of said corporation to N. M. Launer and Ruth D. Launer, or order.

A public hearing in this matter was held at Desert Hot Springs before Examiner MacKall.

Prior to March 1, 1946, two mutual water systems furnished water in three subdivided tracts in the community of Desert Hot Springs. Nelson M. Launer, after considerable negotiations with the various interests involved, organized and incorporated Desert Hot Springs Water Co. for the purpose of acquiring existing water properties and to install necessary additional facilities to supply adjoining and adjacent properties. This Corporation took possession of the above mutual systems on March 1, 1946, and since that date under the supervision and direction of Mr. Nelson M. Launer has rebuilt the entire water system upon a very high standard of waterworks construction.

Most of the lands comprising Applicant's proposed service area formerly were owned or controlled by A. Wardman and Bonnie Wardman, husband and wife, and L. W. Coffee and Lillian T. Coffee, husband and wife. All standing, flowing, or percolating waters, both cold and hot, upon or lying beneath the surface of their properties were separated and reserved to said owners. Desert Hot Springs Water Co. obtained by grant from said owners their respective interests and rights in the underground cold water and cold water rights under the properties to be served by said water company, together with the right to develop and remove said cold water from the underground sources. The development and use of hot water underlying the said properties was not granted similarly; however, it was provided in said grant that the water company, if unable to develop the necessary quantity of water from the cold water sources, shall have a non-exclusive right to develop in any portion of said properties, such amounts of hot water as may be necessary to supplement the cold water supply. The conveyance and use of these rights to underground water and the distribution thereof is limited under said grant to the properties upon which the rights to withdraw such underground water have been acquired. The term "hot water" is construed to mean water of a temperature of 100 degrees Fahrenheit or over, at the point of production; the cold water being water lower in temperature than said 100 degrees.

The water supply is obtained from four deep wells, three of which are equipped with pumping plants, producing a total of 201 gallons per minute. The fourth well is held in reserve as a standby unit. Storage of 1,100,000 gallons is provided by two reinforced concrete ground level reservoirs. The distribution system consists of 76,237 feet of steel pipe lines ranging from two inches to 12 inches in diameter; 20,720 feet of these pipe lines are high-pressured copper-alloy steel. At the end of the year 1947 the company was serving 401 consumers.

The proposed service area covers 915 acres, more or less, in Section 30, and the north one-half of Section 31, T2S, R5E, S.B.B&M., in Riverside County; 595 acres thereof already have been subdivided.

Mr. Nelson M. Launer, President of the Desert Hot Springs Water Co., testified that the original cost of the physical properties of the water system amounted to \$179,937 as of December 31, 1947. For the year 1946 Mr. Launer stated that the operating revenues amounted to \$8,277; operating expenses, including \$1,580 for depreciation, were \$8,632, leaving a loss of \$354 for the year. Similarly for the year ending December 31, 1947, operating revenues were \$14,008, operating expenses, including \$3,855 for depreciation, amounted to \$14,391, leaving a deficit of \$383 for the year 1947. Based upon anticipated growth and development of the business in the immediate future, Mr. Launer estimated that the annual income, under his proposed schedule of rates, would amount to \$24,123, the operating expenses including depreciation would be \$23,894, leaving an operating profit of \$229.

Mr. James F. Wilson, one of the Commission's engineers, presented a report in which he appraised the physical properties of this system, based upon the estimated original cost, at \$178,168, as of January 1, 1948. To this was added the sum of \$3,100 in working cash capital and materials and supplies, making a total of \$181,268. In this report the operating revenues for the year 1947 were given as \$13,692; operating expenses, including depreciation of \$3,560, computed by the sinking fund method at 5%, amounted to \$13,352. The net operating revenue was \$340 for the year 1947. Based upon the amount of the capital investment as set out above, the rate of return would amount to .19 of 1% for the year 1947. Mr. Wilson also computed the requirements for the depreciation reserve for the year ending December 31, 1947, as \$7,211.

The balance sheet of Desert Hot Springs Water Co. as of December 31, 1947, attached as Exhibit A to the amended application, shows assets and liabilities as follows:

<u>Assets</u>	
Current Assets	
Cash in bank	\$ 4,350.38
Accounts receivable	1,350.16
Prepaid expenses	255.92
	<u>5,956.46</u>
Fixed capital - per appraisal	179,936.71
Construction work in process	<u>15,850.08</u>
Total assets	<u>\$201,743.25</u>
<u>Liabilities</u>	
Current Liabilities	
Accounts payable	\$ 1,625.00
Accrued taxes	372.50
	<u>1,997.50</u>
Notes payable	25,000.00
Contingent advance	35,000.00
Investment	140,484.35
Less operating deficits 1946	355.71
Less operating deficits 1947	382.89
	<u>139,745.75</u>
Total liabilities	<u>\$201,743.25</u>

The evidence shows that the amount of \$35,000 reported under "Contingent advance" represents money advanced by real estate promoters for the installation of a distribution system on one of the newly subdivided tracts to be served by Applicant. The \$25,000 note is dated April 10, 1946, and is payable to A. Wardman in five annual installments of \$5,000 each, the first installment being due February 28, 1952. The note bears no interest until February 28, 1951. After that date it bears interest at 4% on the unpaid balance. The assumption of the payment of this note by Applicant will be authorized.

Desert Hot Springs Water Co. has an authorized stock issue of 2,500 shares of the par value of \$100 each, and of the aggregate par value of \$250,000. In its amended application, it asks permission to issue 1,000 shares of its stock to N. M. Launer and Ruth D. Launer, or order, in consideration for the cash and properties which they will

transfer to the corporation. Reference has already been made to the properties.

The schedule of rates proposed by Applicant follows customary practice as to its structure, but does not cover adequately a special service condition assuming increasing prominence in this particular area. There are several multiple unit residential projects, some combined with stores, shops and other commercial businesses, usually developed as a single enterprise. The regular rate schedule does not equitably provide for this special class of service without permitting what will amount to an unfair discrimination against the general or average residential and commercial consumer. In view of the varying conditions surrounding each such multiple unit enterprise, it would appear more proper and equitable to all concerned to make the rates to be charged in such cases a matter of separate contract. Applicant may however, if it so desires, file with this Commission, subject to the Commission's approval, a special rate for this class of service.

The schedule of rates set out in the following Order is hereby found to be just and reasonable for the service rendered and to be rendered hereafter.

The certificate of public convenience and necessity granted herein is subject to the following provisions of law:

"That the Commission shall have no power to authorize the capitalization of this certificate of public convenience and necessity or the right to own, operate or enjoy such certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right."

#### O R D E R

Application as entitled above having been filed with the Public Utilities Commission of the State of California, a public hearing having been held thereon, the matter having been duly submitted and the Commission now being fully advised in the premises,

THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA  
HEREBY DECLARES that public convenience and necessity require, and  
will require, the construction, maintenance and operation of a public  
utility water system by Desert Hot Springs Water Co., a corporation,  
in and in the vicinity of the unincorporated community of Desert Hot  
Springs in Riverside County, more particularly described as all of  
Section 30 and the north half of Section 31, T2S, R5E, S.B.B.&M.,  
excepting therefrom the 40 acres and the five-acre parcels as indicated  
on the map marked Exhibit B attached to the application herein, which  
map is hereby made a part of this Order by reference.

IT IS HEREBY ORDERED as follows:

1. That a certificate of public convenience and necessity be and it  
is hereby granted to Desert Hot Springs Water Company to construct,  
maintain and operate a public utility for the distribution and sale  
of water within the territory hereinabove described;
2. That Desert Hot Springs Water Co. be and it is hereby authorized  
and directed to file in quadruplicate, in conformity with this  
Commission's General Order No. 96, within thirty (30) days from  
and after the effective date of this Order, the following schedule  
of rates to be charged for all water service rendered to its con-  
sumers on and after said effective date, which schedule of rates  
is hereby found to be just and reasonable for the service to be  
rendered:

Schedule No. 1.

MONTHLY METER RATES

APPLICABILITY

Applicable to all domestic, commercial and industrial users  
of water.

TERRITORY

Desert Hot Springs and in the vicinity thereof, Riverside  
County.

RATES

Monthly Minimum Charges:

	<u>Per Meter</u> <u>Per Month</u>
For 5/8 x 3/4-inch meter . . . . .	\$2.50
For 1-inch meter . . . . .	6.00
For 1 1/2-inch meter . . . . .	15.00
For 2-inch meter . . . . .	25.00

The foregoing charges are for 500 cubic feet of  
water or less each month.

Monthly Quantity Rates:

Per Month

For water in excess of 500 cubic feet  
per month

500 to 2,000 cubic feet, per 100 cubic feet	\$0.50
Next 3,000 cubic feet, per 100 cubic feet	.45
Over 5,000 cubic feet, per 100 cubic feet	.40

IT IS HEREBY FURTHER ORDERED that Desert Hot Springs Water Co., upon the transfer to it of the water and other properties referred to in the foregoing Opinion, be, and it is hereby, authorized to issue and deliver, on or before September 30, 1948 to N. M. Launer and Ruth D. Launer, or order, 1,000 shares (\$100,000 par value) of its common stock, and assume the payment of said \$25,000 note, the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of said stock and the assumption of said indebtedness is reasonably required by Desert Hot Springs Water Co. for the purposes herein stated, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

IT IS HEREBY FURTHER ORDERED that within sixty (60) days after the issue of said shares of stock, or any part thereof, Desert Hot Springs Water Co. shall file with the Commission a report showing the number of shares of stock issued, to whom said shares were issued, and the consideration received therefor, and shall also file with the Commission a copy of the deed or other instrument of conveyance under which it holds title to its properties.

IT IS HEREBY FURTHER ORDERED as follows:

1. That Desert Hot Springs Water Co., within sixty (60) days from and after the effective date of this Order shall submit to this Commission for approval four sets of rules and regulations governing relations with its consumers, each set of which shall contain a suitable map or sketch, drawn to an indicated scale upon a sheet 8½ x 11 inches in size, delineating thereupon in distinctive markings the boundaries of its present service area, the location thereof with reference to the immediate surrounding territory; provided, however, that such map or sketch shall not thereby be considered by this Commission or any other public body as a final or conclusive determination or establishment of the dedicated area of service, or any portion thereof.

2. That Desert Hot Springs Water Co, within sixty (60) days from and after the effective date of this Order, shall file with this Commission four copies of a comprehensive map, drawn to an indicated scale of not less than 600 feet to the inch, upon which shall be delineated by appropriate markings the territory presently served. This map should be reasonably accurate, show the source and date thereof, and include sufficient data to determine clearly and definitely the location of the property comprising the entire utility area of service; provided, however, that such map shall not thereby be considered by this Commission or any other public body as a final or conclusive determination or establishment of the dedicated area of service, or any portion thereof.
3. The authority herein granted is effective twenty (20) days from and after the date hereof.

Dated at San Francisco, California, this 28<sup>th</sup> day  
of May, 1948.

R. J. [Signature]

[Signature]

[Signature]  
Commissioners.