

Decision No. 50857**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 A: RONALD BUTTON and GLADYS M. BUTTON,)
 doing business as RANCHO MIRAGE WATER) Application No. 35502
 COMPANY (fictitious firm name), for)
 Authorization to Increase Water Rates.)

A. Ronald Button, attorney, in propria persona,
 for applicants.
Mrs. Hazel K. Beckley, Mrs. Maude C. Campbell,
Mrs. Frances Knox, Mrs. Lady Mary Davis, in
 propria personae, interested parties.
Charles W. Drake, Roy E. Sutherland, and
Richard R. Entwistle, for the Commission
 staff.

O P I N I O N

A. Ronald Button and Gladys M. Button,¹ doing business as Rancho Mirage Water Company (fictitious firm name), by the above-entitled application filed June 9, 1954 seek authority to increase rates for water service by approximately \$5,000 annually, in unincorporated territory in Rancho Mirage, Riverside County, about 7 miles east of Palm Springs.

A public hearing in this matter was held before Examiner Stewart C. Warner on November 18, 1954 in Palm Springs. Three letters protesting the granting of the application have been received.

General Information

Applicants' predecessor, Rancho Mirage Annex No. 2, a corporation, was granted a certificate of public convenience and

1. Hereinafter referred to as applicants.

necessity to operate as a public utility water company by Decision No. 43277, dated October 29, 1949, in Application No. 30132. The authorized service area and the water system installations therein are delineated on the map, Exhibit No. 2. The total service area contains approximately 212 acres. Water service pipelines have been installed and are available to 498 lots. As of the date of the hearing, water service was being furnished to approximately 197 consumers. All services were metered.

Description of the Water System

Applicants' source of water supply includes three wells from which water is pumped into the system under working pressures of between 62 to 73 pounds per square inch. Excess water production is stored in an 83,000-gallon steel storage tank for gravity distribution throughout the system.

During 1954, applicants' Well No. 2 was deepened and 2,550 feet of 8-inch pipeline were installed southwesterly therefrom at a cost of \$5,952. Automatic controls were installed on the pump at the well at a cost of \$690, and paving and wiring in connection with the entire installation cost \$330. Applicants have contracted for the installation of 4,680 feet of additional 8-inch and 1,660 feet of 6-inch pipelines, to cost \$13,330 to connect Well No. 2 to the storage tank and to eliminate 4-inch dead ends on Dunes View Road. Applicants' witness testified that these installations would be completed within two weeks. He further testified that they would materially improve service conditions throughout the entire service area, particularly northwest of The Veldt.

Basis of Application

Applicants base their application for increased rates on their allegation that they have been sustaining annual operating

losses at the present rates, and that the rate of return for the normalized year 1954, at such rates, would be nil.

An accounting witness for applicants testified that it had been necessary for him to reconstruct and recast applicants' books of account with the following results:

COMPARISON OF RECORDED LOSSES AND ESTIMATED ACTUAL LOSSES
Years 1950 - 1953 Inclusive
(Per Exhibit No. 1-A)

<u>Year</u>	<u>Reported Net Revenue Per Annual Reports</u>	<u>Adjusted Net Revenue</u>
1950	\$ 1,168.54	\$ 642.35
1951	795.51	476.70
1952	6,213.87	2,896.66
1953	6,730.39	3,694.24
Total	<u>14,908.31</u>	<u>7,709.95</u>

Rates

Applicants' present rates were established in the year 1949 by Decision No. 43277 hereinbefore referred to. The present and proposed rates are compared as follows:

COMPARISON OF PRESENT AND PROPOSED RATES

<u>Quantity Rates</u>		<u>Per Meter Per Month</u>	
		<u>Present</u>	<u>Proposed</u>
First	500 cu.ft. or less	\$1.00	\$2.00
Next	3,500 cu.ft., per 100 cu.ft.	.20	
Next	4,000 cu.ft., per 100 cu.ft.	.15	
Next	7,000 cu.ft., per 100 cu.ft.	.10	
Next	5,000 cu.ft., per 100 cu.ft.	.075	
Over	20,000 cu.ft., per 100 cu.ft.	.05	
Next	1,500 cu.ft., per 100 cu.ft.		.30
Next	3,000 cu.ft., per 100 cu.ft.		.20
Next	5,000 cu.ft., per 100 cu.ft.		.15
Over	10,000 cu.ft., per 100 cu.ft.		.10

At the present rates the charge for a monthly consumption of 1,800 cu. ft. is \$3.60. At the proposed rates it would be \$5.90, an increase of \$2.30 or about 64 per cent.

The record shows that the rates established by Decision No. 43277 were of a promotional type and were considerably lower than

average charges for comparable service in the territory. The Commission stated in effect in said decision that higher rates might be required after the original rates had been in effect for a sufficient time to determine by actual experience the normal operating costs.

Earnings

The earnings information contained in Exhibit No. 1, an earnings report submitted by applicants' accounting witness, and in Exhibit No. 3, a report on the results of applicants' operations submitted by Commission staff engineering and accounting witnesses, is summarized as follows: ✓

Item	Year 1953 Adjusted*	Year 1954 Estimated			
		Present Rates		Proposed Rates	
		Per Co. Exhibit 1	Exh. 1	Per PUC Exh. 3	Per PUC Exh. 3
Operating Rev.	\$11,436	\$11,637	\$12,232	\$16,559	\$17,430
Operating Exp.	14,202	10,780#	8,930ø	10,780#	8,930ø
Taxes	556	585	876	762	2,272
Depreciation	3,371	3,710	2,540	3,710	2,540
Total	18,129	15,075	12,346	15,252	13,742
Net Oper. Rev.	(6,693)	(3,438)	(114)	1,307	3,688
Rate Base	70,918	73,216	73,350	73,216	72,780
Rate of Return	-	-	-	1.78%	5.07%

(Loss)

- * Book figures as of December 31, 1953 partially adjusted.
- # Includes operating payroll amounting to \$4,725.
- ø Includes operating payroll amounting to \$3,200.

The record shows that the cost of deepening Well No. 2 and the pipeline installations effected during 1954 have not been included in the applicants' or the Commission staff's estimated rate bases for the year 1954.

Conclusion

In view of the annual operating losses sustained since 1949, it is evident that applicants are in need of financial relief.

The Commission is of the opinion and hereby finds that the rate of return of 5.07 per cent, which would be produced by the application of an adjusted net revenue of \$3,688 for the year 1954, to an average depreciated rate base of \$72,780, is reasonable. The filing of the schedules of rates proposed in the application will be authorized by the order which follows.

Applicants will be authorized to restate their books of account in accordance with the corrections contained in Exhibit No. 1 and referred to in Chapter 2, Exhibit No. 3.

O R D E R

Application as above-entitled having been filed, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that present rates in so far as they differ from those herein prescribed are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED as follows:

1. That applicants be, and they are, authorized to file in quadruplicate with this Commission, in conformity with the Commission's General Order No. 96, the schedule of rates shown in Appendix A attached hereto, and on not less than five days' notice to the Commission and to the public to make such rates effective for service rendered on and after January 16, 1955.
2. That within thirty days after the effective date of this order, applicants shall file with this Commission up-to-date rules, under the fictitious name Rancho Mirage Water Company, and four copies of tariff service area maps acceptable to this Commission, in conformity with the provisions of the Commission's General Order No. 96.
3. That within forty days after the effective date of this order, applicants shall file four copies of comprehensive maps drawn to indicated scales not smaller than 200 feet to the inch, delineating

by appropriate markings the various tracts of land and territory served; the principal water production, storage and distribution facilities; and the location of various properties of applicants.

- 4. That applicants shall determine the accruals for depreciation by dividing the original cost of plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the plant; applicants shall review the accruals when major changes in plant composition occur and for each plant account at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.
- 5. That applicants are authorized to restate their books of account in accordance with the corrections contained in Exhibit No. 1 and referred to in Chapter Chapter 2, Exhibit No. 3.

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

Dated at San Francisco, California, this 14th day of DECEMBER, 1954.

John E. Mitchell
President

Justice J. Calmes

Kenneth P. Patten

James Higgins

Paul H. ...
Commissioners

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Rancho Mirage, Riverside County.

RATES

	<u>For Meter Per Month</u>
Quantity Rates:	
First 500 cu.ft. or less	\$2.00
Next 1,500 cu.ft., per 100 cu.ft.30
Next 3,000 cu.ft., per 100 cu.ft.20
Next 5,000 cu.ft., per 100 cu.ft.15
Over 10,000 cu.ft., per 100 cu.ft.10
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 2.00
For 3/4-inch meter	3.00
For 1-inch meter	4.00
For 1½-inch meter	5.50
For 2-inch meter	7.50
For 3-inch meter	12.00
For 4-inch meter	20.00

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.