

ORIGINALDecision No. 86010

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of PALM DESERT WATER COMPANY, a
corporation, for authorization to
increase its rates charged for
water service.

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)
) Application No. 39356
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Best, Best & Krieger, by James H. Krieger
and Richard Edsall, for applicant.
Ralph E. Phillips, for Candlewood Lodge, and
C. M. Kincaide, for himself; protestants.
Harry B. Cannon, for Palm Desert Chamber of
Commerce; Mrs. Arnold Schaak, for Palm
Desert News Letter; Win Andrews, Clifford
W. Henderson, Paul G. Payne, and George L.
Townsend, each for himself; interested parties.
James G. Shields and Theo. Stein, for the
Commission staff.

O P I N I O N

By the above-entitled application filed August 21, 1957,
the Palm Desert Water Company, a corporation, seeks to increase
rates for water service rendered in the unincorporated community of
Palm Desert and vicinity, about thirteen miles southeasterly of Palm
Springs, in Riverside County.

Public Hearings

After due notice to the public and to each of applicant's
consumers, three days of public hearings were held in the matter
before Examiner E. Ronald Foster, on April 9 and 10 in Palm Springs
and on April 24, 1958, in Los Angeles. Upon the last date the matter
was submitted and is now ready for decision.

Nature of Evidence

Witnesses on behalf of applicant presented oral testimony
and supporting exhibits concerning various phases of applicant's
operations; its relations with its associate, Palm Desert Sales

Company; and the water system facilities recently acquired by applicant from the Pines to Palms Mutual Water Company. Particularly pertaining to its request for rate relief, applicant's consulting engineer witness submitted two reports which together cover the results of operation of Palm Desert Water Company for the year 1956 as recorded and adjusted and for the years 1957 and 1958 as estimated.^{1/}

Experts of the Commission's staff presented, by oral testimony and supporting exhibits,^{2/} the results of their independent studies and analyses of applicant's operations for the years 1957, as recorded and adjusted, and for the year 1958 as estimated.

Although several spectators attended the first two days of hearing, only one customer offered any testimony. The appearance for Palm Desert Chamber of Commerce, in particular, showed an active interest in the proceeding by cross-examining the various other witnesses at all three days of hearing.

History of the Utility

The applicant corporation was organized December 20, 1949, for the purpose of furnishing water service to purchasers of lands being subdivided by the Palm Desert Corporation. Decisions Nos. 45721 and 45862, dated May 15 and June 26, 1951, respectively, in Application No. 32201, granted applicant a certificate of public convenience and necessity, authorized the issuance of certain securities, and established the rates for water service now in effect.

^{1/} Exhibits Nos. 3 and 4.

^{2/} Exhibits Nos. 5, 5-A and 5-B

By Decision No. 56033 dated December 30, 1957, in Application No. 39646, the utility was authorized to issue four unsecured promissory notes in evidence of \$17,500 advanced by holders of its common stock to finance, in part, construction costs amounting to approximately \$25,500, which included the construction and equipping of a new well. The notes, payable within three years after dates of issue, bear interest at the rate of 6 per cent per annum.

Description of the System

The utility's service area comprises approximately 1,530 acres, including 30 acres formerly served by the Pines to Palms Mutual Water Company whose water system was acquired by applicant as of January 1, 1958. The area slopes generally upward from north to south and is located at the intersection and on both sides of the Palm Springs to Indio State Highway No. 111 and the Pines to Palms State Highway No. 74.

The source of water supply consists of four wells, drilled to depths varying from 252 to 790 feet, each equipped with an electric motor-driven deep well turbine-type pump. One of the pumps is manually controlled while the others are automatically regulated by control systems actuated by reservoir water levels.

The storage capacity of the metal tanks now in the water system is as follows:

<u>Reservoir Number</u>	<u>Capacity</u>	<u>Elevation</u>
1	126,000 gallons	420 Feet
2	150,000 gallons	556 Feet
3	30,000 gallons	608 Feet
<u>Total</u>	<u>306,000 gallons</u>	

Prior to the end of 1958 applicant plans to install a fourth metal storage tank of 200,000-gallons capacity to be designated as No. 4 Reservoir adjacent to the existing No. 2 Reservoir.

There are four electric motor driven booster pumps installed in connection with the distribution system. Two of these

pumps are located at the site of No. 1 Reservoir and function to elevate water from that location to No. 2 Reservoir and another operates to deliver water from the distribution system into the No. 3 Reservoir located above the former Pines to Palms Mutual Water Company's service area. The fourth booster is connected to the discharge of one of the well pumps and serves to increase the volume and pressure of the water from that well delivered into the distribution system.

There are two principal zones in the service area, the pressures in them depending primarily upon the water levels in the two main storage reservoirs. As of March 26, 1958, there were 241 customers in the lower zone and 125 in the upper zone (including about ten customers in the third zone immediately below Reservoir No. 3), making a total of 366 customers.

As of December 31, 1956, the system comprised approximately 115,576 feet of transmission and distribution mains varying in size from 2 to 8 inches in diameter. On December 26 of each of the years 1955, 1956 and 1957 there were respectively 247, 288 and 353 metered service connections. Thus, at the end of 1956 it is indicated that there were about 400 feet of mains per metered service connection. On the basis of 120,857 feet of mains installed as of December 31, 1957, the average length of main per metered service connection would be about 342 feet. As of December 31, 1956, there were 147 fire hydrants connected to the distribution system and 12 were added during 1957, making a total of 159 fire hydrants at the end of that year.

All services are metered with the exception of those used to supply the "common grounds" or irrigated areas along the streets in the several units of the subdivided lands.

Present and Proposed Rates

Applicant's present rates have been in effect since June 1, 1951. The following tabulation presents a comparison of applicant's present and proposed rates for metered service:

General Metered Service

Quantity Rates:	Per Meter Per Month		
	Present Rates	Proposed Rates	Per Cent Increase
First 600 cu.ft. or less	\$1.50	\$3.00	100
Next 400 cu.ft., per 100 cu.ft. . . . .	.225	.35	56
Next 4,000 cu.ft., per 100 cu.ft. . . . .	.15	.25	67
Next 5,000 cu.ft., per 100 cu.ft. . . . .	.125	.20	60
Next 10,000 cu.ft., per 100 cu.ft. . . . .	.10	.15	50
Over 20,000 cu.ft., per 100 cu.ft.	-	.10	-
Next 30,000 cu.ft., per 100 cu.ft. . . . .	.08	-	-
Over 50,000 cu.ft., per 100 cu.ft. . . . .	.05	-	-

Minimum Charge:

For 5/8 x 3/4 - inch meter.	1.50	\$3.00	100
For 1 - inch meter.	2.00	5.00	150
For 1½ - inch meter.	4.50	10.00	122
For 2 - inch meter.	6.00	15.00	150
For 3 - inch meter.	12.00	25.00	108
For 4 - inch meter.	20.00	40.00	100
For 6 - inch meter.	*	60.00	-

* No tariff on file for this size of meter, although \$36.00 minimum has been charged a customer.

The record shows that applicant has both 5/8 x 3/4-inch and full 3/4-inch meters on services to some of its customers. At the hearing applicant stipulated that it would have no objection to the establishment of two minimum charges, one for a 5/8 x 3/4-inch meter and another for a 3/4-inch meter.

A consumer analysis prepared by applicant's engineer shows that for the 12-month period ending June 30, 1957, the average monthly consumption by metered customers was nearly 9,000 cubic feet. For such monthly usage the charge at present rates is \$13.40 and at proposed rates it would be \$22.40, an increase of \$9.00 or 67 per cent.

Applicant also proposed a new schedule consisting of a single rate of \$840 per month applicable to all flat rate service of water used to supply the common grounds of Palm Desert Units Nos. 1, 3, 4, 5, 6, 7, 8 and 9. At the hearing, applicant asked to amend this schedule to include Unit No. 10 at the same rate. Although applicant has no rate on file for such service, the record shows that since November 1, 1954, it has been making a monthly charge of \$600 for this unmetered service. The proposed rate of \$840 per month would represent an increase of 40 per cent. As and when additional subdivision units are added which involve similar common grounds, also called park and recreation areas, applicant stated at the hearing that rate filings would be made by advice letter to provide for additional charges for flat rate service of water to them.

Applicant has neither filed nor proposed any schedule of rates for fire protection service rendered through the fire hydrants connected to the water distribution system.

Summary of Showings

The respective showings of applicant and the Commission staff may be summarized as shown in the following tabulation, extracted from Exhibits Nos. 3, 4, 5, 5-A and 5-B in this proceeding:

SUMMARY OF EARNINGS

<u>Item</u>	<u>Year 1957</u>		<u>(Estimated (Applicant) Adjusted (Staff)</u>	
	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Applicant</u>	<u>Staff</u>	<u>Applicant</u>	<u>Staff</u>
Operating Revenues	\$ 45,210	\$ 45,370	\$ 74,940	\$ 74,940
<u>Expenses</u>				
Operating	29,590	21,600	29,590	21,600
Taxes Other Than Income	2,730	2,135	2,730	2,135
Taxes on Income	640	3,115	11,580	14,860
Depreciation	9,750	6,932	9,750	6,932
Total	<u>42,710</u>	<u>33,782</u>	<u>53,650</u>	<u>45,527</u>
Net Revenue	2,500	11,588	21,290	29,413
Avg. Depreciated Rate Base	239,080	236,700	239,080	236,700
Rate of Return	1.05%	4.89%	8.90%	12.43%

<u>Item</u>	<u>Year 1958</u>		<u>Estimated</u>	
	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Applicant</u>	<u>Staff</u>	<u>Applicant</u>	<u>Staff</u>
Operating Revenues	\$ 50,240	\$ 50,240	\$ 83,510	\$ 83,510
<u>Expenses</u>				
Operating	32,490	22,905	32,490	22,905
Taxes Other Than Income	2,930	2,200	2,930	2,200
Taxes on Income	440	4,750	13,160	19,545
Depreciation	12,240	7,720	12,240	7,720
Total	<u>48,100</u>	<u>37,575</u>	<u>60,820</u>	<u>52,370</u>
Net Revenue	2,140	12,665	22,690	31,140
Avg. Depreciated Rate Base	269,100	250,000	269,100	250,000
Rate of Return	0.79%	5.07%	8.43%	12.46%

Revenues

Applicant's engineer prepared a detailed consumer analysis for the 12-month period ending June 30, 1957, on the basis of which he estimated metered service revenues at both present and proposed rates for the calendar year 1957. His estimate of the present rates

proved to be quite accurate when compared with the recorded revenues for that year. Later, based on 351 general metered consumers as of December 31, 1957, and an estimate of 29 consumers to be added during the year 1958, he made similar estimates of revenues for the year 1958.

Revenues from flat rate service were computed at the rates presently being used and as proposed by applicant.

The staff engineer reviewed and checked the revenue estimates made by the applicant's engineer, concluded that they were reasonable and accepted them for the purposes of his report. This explains the identical amounts for the two showings in the foregoing tabulation representing estimated revenues at proposed rate for the year 1957 and at both present and proposed rates for 1958.

Expenses

Applicant's engineer and the Commission staff are in basic disagreement with respect to the determination of certain elements of operating expenses. When considering these differences, it should be remembered that Palm Desert Water Company has no employees; that the payroll charges represent the time which employees of the Palm Desert Sales Company,^{3/} an associate of the utility, devote to the water company, based on time sheets for outside work and on estimated cost of office salaries; and that engineering and legal assistance is obtained as required from outside firms. The substantial differences between the two showings are discussed under the following headings:

1. Source of Water Supply Expenses.

The amounts as recorded for this group of accounts consist primarily of labor items most of which properly should be charged to pumping. For the maintenance of wells, applicant allowed \$100 per annum per well or a total of \$300 in 1957 and \$400 in 1958. The staff allowed \$25 per annum per well or a total of \$100 for each

^{3/} Sometimes hereinafter referred to as Sales Company.

of the years 1957 and 1958 on a pro forma basis. In the absence of recorded charges applicable to maintenance of wells only, \$200 will be considered as a reasonable allowance for this item of expense for the year 1958.

2. Power and Pumping Expenses.

About 80 per cent of this group of expenses is the item of purchased power which applicant's engineer estimated would cost \$11,770 in 1958 while the staff engineer estimated it should cost only \$9,080 if certain suggested changes in operation were put into practice, or a difference of \$2,690. While certain operating requirements may prevent the realization of all the savings envisioned by the staff engineer, it appears that the estimate by applicant's engineer does not fully reflect the economies obtainable from the relative high efficiency and advantageous location of the new well which was equipped late in 1957, tested, and put into operation at the beginning of 1958. After a careful review of all of the extensive testimony by the two engineers pertaining to this subject, an amount of \$10,500 will be used as a reasonable allowance for power to be purchased during the year 1958.

For the remaining items of this group of expenses covering a telephone line lease, pumping labor, maintenance of pumps and motors, oil and miscellaneous, applicant's engineer estimated an amount of \$2,830 for the year 1958 as compared with the staff's estimate of \$2,170, or a difference of \$660. An amount of \$2,530 is considered reasonable for such items for the estimated year 1958.

3. Transmission and Distribution Expenses

For the year 1958, applicant's engineer estimated \$4,310 for expenses connected with the operation and maintenance of transmission and distribution pipelines, services, fire hydrants, and tanks, compared with the staff's estimated amount of \$4,085, a difference of \$225.

One item covered the amortization of an amount of about \$2,250 expended during 1955 to repair the bottom of the No. 1 storage tank which was installed in 1946, the applicant using a period of 5 years and the staff using a period of 9 years; the staff's treatment is considered logical and reasonable for this extraordinary expense.

Another item concerned an amount of about \$760 paid by the applicant in 1957 to have its distribution system maps brought up to date, which the staff proposed to amortize over a period of 9 years. On the other hand, applicant's engineer proposed to capitalize this expense and included that amount in utility plant and rate base. The staff's treatment of this extraordinary expense is considered proper.

The smaller differences in other items were also considered and a total amount of \$4,180 is adopted as reasonable to represent this group of expenses for the year 1958.

4. Customer Accounts Expenses.

Applicant's engineer and the staff engineer estimated amounts of \$770 and \$750, respectively, for this group of expenses for the estimated year 1958. On the basis of \$685 recorded expense for the year 1957 and allowing for estimated customer growth, an amount of \$750 appears to be reasonable for this group of expenses for 1958.

5. Administrative and General Expenses.

For the year 1958, the differences between the estimates of the two engineers for this group of expenses are as follows:

<u>Classification</u>	<u>Applicant</u>	<u>Staff</u>	<u>Difference</u>
Payroll	\$ 8,470	\$4,200	\$4,270
Regulatory Commission	1,670	670	1,000
Insurance	750	400	350
Rent (Office and Other)	1,200	1,200	-
General Repairs	220	150	70
Legal	100	100	-
Total	<u>12,410</u>	<u>6,720</u>	<u>5,690</u>

(a) Payroll Expense.

Considerable testimony and much cross-examination revolved around the general item of the administrative and general payroll. Applicant has no payroll for employees of its own. All services, including management, accounting, clerical and operating labor, which are not rendered under contract, are furnished by the Sales Company. With the exception of management, accounting and clerical services, all labor furnished by the associated company is charged to applicant on the basis of time-card records.

For the year 1957, payroll expenses charged to this group of accounts were recorded as \$5,408. These payroll charges included one half of the salary of the office clerk at monthly salaries varying between \$275 and \$350 plus \$150 per month representing the estimated cost of the time devoted to applicant's operations by either one or both of two men who act in general capacities as accountant and as general manager for the applicant. In addition, extra office help was employed during the first five months of the year.

The staff engineer adjusted the actual 1957 payroll expense to an amount of \$3,900 to eliminate nonrecurring costs and to reflect the stabilized payroll costs incurred during the latter part of the year. He estimated a corresponding amount of \$4,200 for 1958 operations.

Applicant's engineer based his estimates on the recorded figures for the first seven months of 1957, which figures are alleged to have been based on a study of time actually spent by the office personnel of the Sales Company on applicant's operations. He made a further allowance of \$150 per month for the manager, claiming that no expense had been recorded for his time. In this manner he arrived at a total estimated amount of \$7,860 as payroll expense under this heading for 1957, which he increased to \$8,470 to reflect the 1958 level of business transactions.

The record shows that the only realistic time study which was attempted concerned the office clerk, covering one month in 1957. The testimony was indefinite and somewhat vague as to the exact nature of the duties and responsibilities of the manager, accountant, office clerk and other persons and as to the amount of time such personnel spend, in relation to applicant's affairs. However, it appears clear that any determination of the charges to the applicant for this payroll expense has been and in the future will be an arbitrary allocation of a portion of the salaries paid by the Sales Company to persons spending part of their time on applicant's activities. It also appears that any estimate of time spent on such activities in 1957 undoubtedly would have been influenced by the work done in that year in connection with the instant rate proceeding. It further appears that out of whatever total allocation of these persons' salaries is assigned to applicant, some portion thereof should properly be charged to appropriate plant accounts, rather than charging it all to expense.

Applicant's engineer testified that his estimates for the years 1957 and 1958 included total amounts of approximately \$13,300 and \$13,390, respectively, for all wages and salaries, which equate to about \$3.55 and \$3.04, respectively, per customer per month. It may be noted that about 60 per cent of his total payroll estimate is for administrative and general salaries. It was brought out that in prior testimony^{4/} this witness had stated" that for other water companies which I have studied the normal salary expense allowance range is between the figure of 75 cents and \$1.25 per consumer per month." To justify his considerably higher figures in the present proceeding he pointed out that the average water consumption at Palm Desert is three times that of water users on the coastal plain so that it was his opinion that applicant serves a special

^{4/} Malibu Water Company, Application No. 35657, in 1954.

type of consumer.

After review and careful consideration of all of the evidence pertaining to this element of expense, an amount of \$6,500 is considered sufficient and will be adopted as a reasonable administrative and general payroll expense for the year 1958.

(b) Regulatory Commission Expense.

Applicant's engineer included this item of expense at \$1,670 to represent one year's amortization of the cost of the instant rate proceeding, estimated at \$5,000, over a period of three years. The staff engineer considered \$4,000 as a reasonable cost for such proceeding, which he amortized over a six-year period, resulting in a figure of \$670.

Exhibit No. 8 filed by applicant herein shows a total amount of \$5,412 as prepaid expense for professional legal and engineering services rendered in connection with this proceeding, including an estimate to complete the rate hearing. It may be noted that the rate engineer prepared two reports to show results of applicant's operations, one for 1956 and 1957 dated October 1, 1957, and a supplemental report for 1958 dated March 24, 1958, and that he was present at the three days of hearing together with two attorneys of the firm representing applicant. Because applicant has been operating on the basis of a fiscal year ending October 31st, applicant's engineer spent some time adjusting recorded figures from the fiscal year to a calendar year basis; such time will be unnecessary when applicant operates on a calendar year basis.^{5/}

This rate increase proceeding was filed six years after applicant was certificated. In view of all the related circumstances and observing the magnitude of the cost of the current proceeding, it appears that the estimated amount of about \$5,400 should reasonably be amortized over a period of six years, or \$900 per year.

^{5/} At the hearing applicant stipulated its willingness that its books be put on a calendar year basis commencing with the year 1959.

(c) Insurance.

Applicant's 1958 estimate of \$750 for this item of expense includes an allowance of two per cent of the total payroll expense for compensation insurance, in addition to recorded costs of other insurance. The staff's corresponding estimate of \$400 covered only general insurance. Applicant's treatment of this item appears proper and an amount of \$625 will be used herein as reasonable for all insurance, including compensation insurance on total payroll expenses determined as reasonable in the several foregoing groups of expenses.

(d) General Repairs.

For both of the years 1957 and 1958, applicant and staff estimated \$220 and \$150, respectively, for this item of expense. Based on recorded amounts during the past three years, an amount of \$200 is considered reasonable for the year 1958 as an allowance for general repairs.

(e) Rent and Legal Expenses.

Amounts of \$1,200 and \$100 per year for rent and legal expenses, respectively, were estimated by both engineers and they are considered reasonable and will be adopted.

6. Taxes Other Than Income.

For the year 1958 ad valorem taxes were estimated by applicant at \$2,220 and by the staff at \$2,178. The higher of these two figures is considered reasonable to represent taxes on applicant's property, including the proposed new reservoir.

Other taxes were estimated by applicant to amount to \$710 for 1958, consisting almost entirely of payroll taxes. The staff engineer considered payroll taxes to have been included in the various payroll expense accounts and so did not separate taxes for showing them in this classification. In the foregoing classifications of expense, payroll amounts adopted as reasonable do not include taxes on payroll. An amount of \$600 is determined as reasonable for such payroll taxes and some other minor tax items.

7. Taxes on Income.

The amounts shown as taxes on income for the year 1958 are \$13,160 and \$19,545, respectively, as computed by the applicant and by the staff. Taxes on income vary, of course, with the amount of taxable income which, in turn, depends upon the estimated gross revenue and the allowable deductions. This accounts for the staff's estimate of income taxes being \$6,385 greater than applicant's. The amount of income taxes computed and adopted for use in connection with this proceeding will be developed later.

8. Depreciation.

The annual depreciation accrual for 1958 as determined by the straight-line remaining life method by the staff engineer is \$7,720, as shown in Table 7-A, revised, of Exhibit No. 5-A, on utility plant in service as of January 1, 1958, including the former Pines to Palms Mutual Water Company system and anticipated additions to be installed during 1958 but excluding the proposed new reservoir. The corresponding depreciation accrual for 1958 as determined by the

same method by the applicant's engineer is \$11,880 as shown on Page 10 of Exhibit No. 4, using the same accrual rates for the various classifications of depreciable plant as were developed in Table 4-D of Exhibit No. 3, and is calculated on average plant estimated to be in service during 1958 but also excluding the proposed new reservoir; for the reservoir he estimated an additional accrual of \$400, thus making the total depreciation accrual for the estimated year 1958 in the amount of \$12,240 after deducting \$40 for depreciation on contributed plant.

The difference of \$4,520 between the two estimates of depreciation accruals is largely due to the differences in the remaining lives of the various classifications of property as developed by the two engineers. In each instance, the remaining life used by the staff engineer was as long as or longer than that used by applicant's engineer. The evidence shows that the staff engineer's estimated remaining life of 33.7 years for transmission and distribution mains is too long when all pertinent factors are considered and properly weighed. By substituting in the staff engineer's table a remaining life of 21.4 years which approximates that of 20.9 years used by applicant for that classification of plant, comprising over half of all depreciable plant, an over-all composite rate of 3.0 per cent is obtained as applicable to gross depreciable plant in service as of January 1, 1958, as compared with over-all composite rates of 3.38 per cent and 2.36 per cent developed by applicant's engineer and the staff engineer, respectively. By applying the same rate of 3.0 per cent to \$8,002 of depreciable plant acquired from Pines to Palms Mutual Water Company on that date and to the estimated weighted average net additions for 1958 of \$29,080^{6/} and a rate of 2 per cent to

^{6/} See Section F, page 9, of Applicant's Exhibit No. 4, showing estimated total additions of \$37,656.

\$20,000 for the proposed new reservoir as non-revenue producing plant, the total depreciation accrual for 1958 totals \$10,635, which result is considered reasonable and will be adopted for the purposes of this proceeding.

Using the foregoing amount of \$10,635 as the depreciation expense for the year 1958 and the recorded reserve for depreciation of \$73,865, as of December 31, 1957, and adding the accrued depreciation requirement of \$992 related to the Pines to Palms Mutual Water system as of January 1, 1958, the average depreciation reserve for 1958 is computed to be \$80,175 and is considered reasonable for the purposes herein.

9. Utility Plant and Rate Base.

The difference of \$19,100 between the two figures for weighted average depreciated rate base may be largely ascribed to the proposed \$20,000 reservoir which applicant's engineer included on a pro-forma basis for the entire year as non-revenue producing plant, while the staff engineer did not include the reservoir because it was his opinion that it will not be needed now that the new well is in production. Applicant's engineer also included in plant on a weighted average basis an amount of \$26,400 for additional mains to be installed in March, 1958, but the effect on the rate base was offset by a corresponding deduction for consumers' advances for construction.

The weighted utility plant considered reasonable to be incorporated in the rate base for the purposes of this proceeding is developed as follows:

Recorded Utility Plant in Service 12/31/57	\$299,335
Construction Work in Progress 12/31/57, including new well, pump and pipeline	27,347
Total Utility Plant, December 31, 1957	<u>326,682</u>
Acquisition of Pines to Palms Mutual Water Company system as of January 1, 1958	8,102
Estimated Additions in 1958 totalling \$37,656, on weighted average basis	29,080
Proposed Reservoir No. 4, pro-forma basis	20,000
Total Weighted Plant	<u>\$ 383,864</u>

The development of the rate bases for the year 1958 as shown in applicant's Exhibit No. 4 and in the staff's Exhibit No.5-B, together with the rate base which will be adopted herein, are shown in the following tabulation on a comparative basis. The rate base of \$268,000 for the year 1958 is hereby adopted as reasonable for the purposes of this proceeding as representing the rate base upon which the reasonableness of applicant's rate proposals may be tested.

Rate Base for Estimated Year 1958

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Weighted Average Utility Plant	\$367,050	\$345,280	\$363,860
Non-Revenue Producing Plant	19,800	-	20,000
Total Utility Plant	<u>386,850</u>	<u>345,280</u>	<u>383,860</u>
<u>Working Capital</u>			
Materials and Supplies	5,740	5,200	5,500
Working Cash	2,220	1,530	2,000
Subtotal	<u>394,810</u>	<u>352,010</u>	<u>391,360</u>
<u>Deductions for Rate Base Purposes</u>			
Consumers' Advances for Construction	42,080	24,360	42,080
Contributions in Aid of Construction	1,120	-	1,120
Total Deductions	<u>43,200</u>	<u>24,360</u>	<u>43,200</u>
Undepreciated Rate Base	351,610	327,650	348,160
Weighted Average Depreciation Reserve	<u>82,510</u>	<u>77,725</u>	<u>80,175</u>
Depreciated Rate Base	269,100	249,925	267,985
Use	269,100	250,000	268,000

Rate of Return

Using the adjusted amounts found reasonable in the foregoing discussion, the following tabulation indicates the results of applicant's operations for the year 1958 as estimated at present rates, at the rates proposed by applicant and at the rates herein-after authorized.

Results of Operations As Adopted

Estimated Year 1958

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
<u>Operating Revenues</u>			
Metered Sales	\$ 43,040	\$ 73,430	\$ 56,480
Flat Rate Service	7,200	10,080	9,600
Total	50,240	83,510	66,080
<u>Operating Expenses</u>			
Source of Water Supply	200	200	200
Power and Pumping	13,030	13,030	13,030
Transmission and Distribution	4,180	4,180	4,180
Customer Accounts	750	750	750
Administrative and General	9,525	9,525	9,525
Subtotal	27,685	27,685	27,685
Taxes Other Than Income	2,820	2,820	2,820
Taxes On Income	2,247	16,133	7,440
Depreciation	10,635	10,635	10,635
Total Expenses	43,387	57,273	48,580
Net Revenue	6,853	26,237	17,500
Average Depreciated Rate Base	268,000	268,000	268,000
Rate of Return	2.6%	9.8%	6.5%

Financial Position

Following is a condensation of the applicant's balance sheet as of December 31, 1957, as set forth in Table 2-A of Exhibit No. 5:

Assets

Total Utility Plant	\$326,682
Reserve for Depreciation of Utility Plant	73,865
Utility Plant less Reserve	252,817
Other Physical Property	1,603
Current and Accrued Assets	24,818
Total Assets	279,238

Liabilities

<u>Capital Stock and Surplus</u>	
Common Capital Stock	50,000
Capital Surplus	183,087
Earned Surplus	1,410
Total Capital Stock & Surplus	234,497
Long Term Debt	17,500
Subtotal	251,997
Current and Accrued Liabilities	4,276
Advances for Construction	22,324
Reserves for Depreciation of other Property	641
Total Liabilities	279,238

From the above it may be pointed out that the equity investment as of December 31, 1957, represented about 93 per cent and debt was only 7 per cent of the applicant's capitalization of approximately \$252,000. In applicant's Exhibit No. 9 the capitalization was increased to \$272,000 to include the proposed new reservoir, with an assumed equity ratio of 50 per cent and debt ratio of 50 per cent. With a further assumption of a 12 per cent return on equity and 6 per cent interest on debt, the cash requirement would be \$24,480 which is 9.1 per cent of the rate base of \$269,100 shown in applicant's Exhibit No. 4. Exhibit No. 9 further shows that with the revenues from the proposed rates and other expenses as developed by applicant in Exhibit No. 4 but with taxes on income reduced to \$11,000, the net revenue would be \$24,850 or a rate of return of 9.24 per cent on the rate base of \$269,100. We feel that any claim based on such assumptions is extravagant and that to comment at any length on this subject would avail little.

Recommendations

The staff recommended, in whatever level of rates is authorized, that there be included a minimum charge for a 3/4-inch meter, as distinguished from a 5/8 x 3/4-inch meter. The record shows there are about 24 of the 3/4-inch meters and 124 of the 5/8 x 3/4-inch size now in service. Applicant stipulated that it has no objection to the establishment of the two minimum charges. A further recommendation was made by the staff that a special condition be made applicable to the flat rate schedule to restrict such service to off-peak periods.

The staff made other recommendations pertaining to depreciation accounting practices and the filing of up-to-date maps, and rules governing customer relations revised to reflect present-day operating practices.

It is also appropriate to recommend that applicant put its books on a calendar year basis, beginning with the year 1959 in accordance with its stipulation, and discontinue keeping records on the present fiscal year basis.

Miscellaneous

At the hearing a question was raised by a consumer who was the former president of Palm Desert Corporation concerning the \$2,500 item of legal expense claimed to have been paid some years ago to clear applicant's title to the site of its Reservoir No. 2, and upon which it is planned to erect Reservoir No. 4, and to some rights of way. No documentary evidence was produced to clarify exactly what such legal services covered. This expense was capitalized on applicant's books in 1957 as part of the cost of its landed capital.

An appraisal was made jointly by applicant's engineer and the staff engineer in this proceeding to determine the estimated original cost of the facilities of the Pines to Palms Mutual Water system acquired by applicant as of January 1, 1958. Exhibit No. 7 shows the total estimated original cost to be \$8,102 and the related accrued depreciation reserve as \$992, which amounts have been used by applicant to record this transaction on its books. The record shows that the only cost to applicant for such properties except for appraisal costs of about \$135, was its agreement to serve water to a 30-acre area as consideration for the various assets received. Those facilities, supplied with water by a connection to applicant's existing pipeline, now serve 10 or 12 customers and more houses are being built in that area.

Applicant testified to the need for the proposed 200,000-gallon reservoir to be installed at the same elevation and on the same site as the existing 150,000-gallon Reservoir No. 2. About 35 per cent of the present customers are in the upper portion of the system supplied from this reservoir with water pumped by the boosters

located at Reservoir No. 1 through over a mile length of 8-inch pipeline. Applicant claims that its consulting hydraulic engineer recommends the installation be made in the near future to satisfy possible peak-period and fire protection requirements. At the hearing applicant's counsel committed the utility to the installation of the said reservoir before the end of the year 1958 provided its estimated cost of \$20,000 is included in the rate base in this proceeding. Because it is being so included, the order herein will require that the reservoir be installed as proposed.

Applicant's engineer called attention to the fact that the rate of return of 8.43 per cent with the proposed rates in effect for the year 1958 compares with 8.90 per cent for the year 1957. He pointed out that as refunds are made on the consumers' advances for construction, the rate base will become greater and subsequently the rate of return will decrease if the gross plant additions are at least equal to the annual depreciation accrual. It does not appear at all certain that such conditions will prevail and it is also to be noted that the rates of return for the two years as determined by the staff indicate a slight increase, rather than any decrease. The evidence is not conclusive that the trend in the rate of return will be downward.

It appears that the arrangement of the irrigated areas and the facilities installed to provide water service to them are such that they cannot be practically and economically metered. Therefore, flat rates for such service will be authorized. The evidence shows that the charges for such service are paid to applicant by the Home Savings and Loan Corporation as the Declarant on the subdivision restrictions, which in turn collects proportionate charges from the owners of each lot of either improved or unimproved property.

The record in this proceeding discloses that there were 159 fire hydrants connected to the distribution system as of December 31, 1957. Also, it discloses that the utility has continued to add hydrants and indicates that additional storage is being provided partially for fire protection. It is therefore apparent that there is a demand for such service and a rate should be filed providing for it. The order which follows will therefore require applicant to file a rate for fire protection service.

Findings and Conclusions

The Commission finds and concludes that the estimates of operating revenues, expenses, including taxes and depreciation, and the rate base as revised herein for the year 1958 are reasonable and they will be and hereby are adopted for the purpose of this proceeding.

The evidence demonstrates that applicant is in need of and entitled to increased revenue. The revenues which applicant's proposed rates will produce, however, are greater than, and the resulting rate of return on applicant's investment is in excess of, those which are reasonable.

As indicated by a foregoing tabulation, the rates herein-after authorized are expected to produce total revenues of about \$66,080 from both metered and flat rate service or an increase of approximately \$15,840 or 31½ per cent more than those estimated to be obtainable from rates presently in effect. After due allowance for all reasonable allowances for operating expenses, taxes and depreciation amounting to \$48,580, the resulting net income of \$17,500 represents a rate of return of 6.5 per cent on the depreciated rate base of \$268,000. We conclude and find that such results of operation are fair and reasonable for this water utility.

The Commission finds as a fact that the increases in rates and charges authorized herein are justified and that the present rates in so far as they differ from those herein prescribed are for the future unjust and unreasonable.

O R D E R

Palm Desert Water Company, a corporation, having applied to this Commission for an order authorizing increases in rates and charges for water service rendered to its customers, public hearings having been held, the Commission having been fully informed thereon, the matter having been submitted and being now ready for decision,

IT IS HEREBY ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96, the schedules of rates attached to this order as Appendix A and, on not less than five days' notice to this Commission and to the public, to make such rates effective for all such service rendered on and after the meter reading date of July 26, 1958.

2. Within forty-five days after the effective date of this order, applicant shall file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96, rules acceptable to the Commission governing customer relations revised to reflect present-day operating practices, a revised tariff service area map and samples of current forms normally used in connection with customer service. Such rules, tariff service area map and forms shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

3. Within sixty days after the effective date of this order, applicant shall file with this Commission four copies of a comprehensive map drawn to an indicated scale not smaller than 500 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 the various water utility properties of applicant.

4. Beginning with the year 1958, applicant shall determine the accruals for depreciation by dividing the original cost of utility plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the plant; applicant shall review the accruals when major changes in utility plant composition occur and for each plant account at intervals of not more than three years. Results of these reviews shall be submitted to the Commission.

5. On or before December 31, 1958, applicant shall have installed and placed in operation a storage reservoir of not less than 200,000-gallons capacity, complete with necessary pipe connections and valves, at the location of the existing Reservoir No.2. Applicant shall inform the Commission in writing within ten days after said facilities have been installed and placed in operation.

6. Within one hundred eighty days after the effective date of this order, applicant shall file in quadruplicate with this Commission

and in conformity with the provisions of General Order No. 96, a schedule of rates providing for public fire hydrant service.

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

Dated at San Francisco, California, this 1st day of July, 1958.

E. Lynn Fox
 President

William L. ...

Paul ...

...

Herbert ...
 Commissioners

APPENDIX A
Page 1 of 2

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Palm Desert and vicinity, located at the intersection of State Highways No. 74 and No. 111, approximately 12 miles southeast of the City of Palm Springs, Riverside County.

RATES

Per Meter
Per Month

Quantity Rates:

First 600 cu. ft. or less	\$ 2.00
Next 1,400 cu. ft., per 100 cu. ft. ....	.25
Next 3,000 cu. ft., per 100 cu. ft. ....	.20
Next 5,000 cu. ft., per 100 cu. ft. ....	.14
Next 10,000 cu. ft., per 100 cu. ft. ....	.11
Over 20,000 cu. ft., per 100 cu. ft. ....	.09

Minimum Charge:

For 5/8 x 3/4-inch meter	2.00
For 3/4-inch meter	3.00
For 1-inch meter	4.50
For 1 1/2-inch meter	8.00
For 2-inch meter	12.00
For 3-inch meter	20.00
For 4-inch meter	30.00
For 6-inch meter	55.00

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

Schedule No. 3FL

LIMITED FLAT RATE IRRIGATION SERVICE

APPLICABILITY

Applicable to water furnished on a flat rate basis for the irrigation of park and recreation areas designated as the common grounds of Units 1,3,4,5,6,7,8,9 and 10.

TERRITORY

The unincorporated community of Palm Desert and vicinity, located at the intersection of State Highways No. 74 and No. 111, approximately 12 miles southeast of the City of Palm Springs, Riverside County.

RATE

	<u>Per Month</u>
For all water furnished	\$800.00

SPECIAL CONDITION

Water furnished under this schedule may be restricted at the option of the utility during hours of peak demand.