

ORIGINAL

Decision No. 58779

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Rancho Ramon Water Co., a California corporation, for a certificate of public convenience and necessity to serve domestic water in the West Indio area of Riverside County for the establishment of rates thereunder and for permission to issue and sell Income Bonds.

Application No. 40172

In the Matter of the Application of Oasis Palms Water Company, a California corporation, for a certificate of public convenience and necessity, to establish rates for water service, and for a permit to issue stock.

Application No. 40801

Rancho Ramon Water Co., 15075 Stage Road, La Mirada, California,

Complainant,

vs.

Case No. 6151

Oasis Palms Water Co., Oasis Palms, Indio, California, and Frank Hart, Oasis Palms, Indio, California, and E. V. Edens, 1631 Randall Way, West Covina, California,

Defendants.

John Moore Robinson, for applicant in Application No. 40172, and for complainant in Case No. 6151. Perry, Holcomb and Kassel, by W. R. Holcomb, for Robert Hart, Frank Hart, HLH Development Company and Oasis Palms Water Company, defendants in Case No. 6151, and for Oasis Palms Water Company in Application No. 40801. C. F. Woolpert for the City of Indio and Boedel Heights Mutual Water Company; and James M. Schlecht for Date Palm Mutual Water Association; interested parties. Richard R. Entwistle and Donald B. Steger, for the Commission staff.

O P I N I O N

Case No. 6151 was heard on November 12 and 21, 1958, and thereafter an interim opinion was rendered determining, among other things, that Oasis Palms Water Company was a public utility corporation, ordering it to file rates, rules and regulations, and prohibiting it from serving new customers (Decision No. 58078, dated March 2, 1959, in Case No. 6151). A petition for a rehearing was filed and rehearing was granted on April 7, 1959, leaving Decision No. 58078 in full force and effect pending rehearing.

By Application No. 40172, filed on June 11, 1958, and amended by an amendment filed on January 26, 1959, Rancho Ramon Water Company requested a certificate of public convenience and necessity to serve domestic water in an area in Riverside County in the vicinity of Indio.

By Application No. 40801, filed on February 5, 1959, and amended by an amendment filed on March 16, 1959, Oasis Palms Water Company requested authority to furnish domestic water to an area in the vicinity of Indio, Riverside County, California, which includes all of Section 21, Section 22 exclusive of 40 acres served by the Boedel Heights Mutual Water Company, the east 3/4 approximately of Section 27, and the portion of Section 15 south of U. S. Highways 60, 70, and 99; to establish rates; and to issue stock. The requested service area overlaps a portion of the service area requested in Application No. 40172, supra.

A public hearing was held on all three matters in Riverside County before Examiner Kent C. Rogers on May 19, 1959. The three matters were consolidated for hearing. The secretary of the

applicant Rancho Ramon Water Co. moved that Application No. 40172 be dismissed and it will be so ordered. This company is the complainant in Case No. 6151 and its secretary stated that inasmuch as Oasis Palms Water Company had filed Application No. 40801 for a certificate of public convenience and necessity, the complaint in Case No. 6151 has become moot and is withdrawn.

No franchise rights are sought and allegedly none are presently required by the County of Riverside.

Oasis Palms Water Company, hereinafter referred to as applicant, is a California corporation formed primarily for the purpose of furnishing domestic water. Its principal place of business is in Riverside County. Its Articles of Incorporation were filed with the Secretary of the State of California on August 22, 1956. It is thereby authorized, among other things, to issue 10,000 shares of stock having a par value of \$10.00 per share. The officers of the corporation are: Frank J. Hart, President; W. R. Holcomb, Vice President; and Robert M. Hart, Secretary-Treasurer.

The Service Area

The proposed service area consists of approximately 1874 acres comprising 194 acres in Section 15, 640 acres in Section 21, 600 acres in Section 22, and 440 acres in Section 27. The NE $\frac{1}{2}$ of the SW $\frac{1}{2}$ of Section 22 is being excluded by stipulation as it is the service area of the Boe-Cel Heights Mutual Water Company. The NW $\frac{1}{2}$ of the NE $\frac{1}{2}$ of Section 27 is excluded as it is the property of the Coachella Valley Union High School District. The proposed service area is fairly level and is bounded on the east by the west city

limits of the City of Indio. Applicant commenced serving a subdivision, the Oasis Palms subdivision, located in the S $\frac{1}{2}$ of the NW $\frac{1}{4}$ of Section 22, in September 1957. This subdivision contains a total of 144 lots of which two are reserved for wells and well sites. At the time of the hearing herein there were 60 consumers. Applicant also has written requests (Exhibit No. 4) for service to a trailer park containing 60 spaces, 2 houses, and a swimming pool, located approximately one-quarter of a mile north of the existing service area at Clinton Avenue and Avenue 44; to 43 lots in a subdivision known as Indio Plaza and located adjacent to and west of applicant's service area (Exhibit No. 5); to a 5-acre parcel of land for church purposes; and to a 39-lot subdivision located immediately north of the existing service area known as West Indio Palms (Exhibit No. 6). In addition to these written requests, testimony was presented that applicant has had requests for water service to a proposed 40-lot subdivision to be located on Clinton Street south of the Boedel Heights Mutual Water Company service area in Section 22.

The City of Indio is immediately east of the east side of the proposed service area. It has plans to annex a portion of the proposed service area which includes the NE $\frac{1}{4}$ of Section 22 and the E $\frac{1}{2}$ of the SE $\frac{1}{4}$ of Section 22. This proposed expansion of the city does not include the subdivisions and areas heretofore described which have requested that applicant provide them with service. No subdivider has requested that the city furnish him with water and it appears that the city rates (Exhibit No. 10) are higher than the applicant's proposed metered rates for a normal amount of water, 2000 cubic feet (Exhibit E of the application). In addition it

appears that the cost of extending service to subdivisions now outside of the city limits of Indio from the city would be more expensive to the subdividers (Exhibit No. 9) than extensions pursuant to applicant's Main Extension Rule now on file with this Commission (Decision No. 50580).

In our opinion public convenience and necessity require that applicant extend service to that portion of the SW $\frac{1}{2}$ of Section 15 south of U. S. Highways 60, 70 and 99, and to the W $\frac{1}{2}$ of Section 22, excepting therefrom the 40-acre parcel served by the Boe-del Heights Mutual Water Company and described as the NE $\frac{1}{2}$ of the SW $\frac{1}{2}$ of Section 22, and it will be so ordered. This area will include the subdivisions that have requested service by applicant, as well as applicant's present service area. No restriction will be imposed relative to extensions to contiguous territory pursuant to Section 1001 of the Public Utilities Code.

The Proposed Water System and Supply

There is a circulating water system in the Oasis Palms subdivision consisting of 4- and 6-inch double-dipped and wrapped mains (Exhibit C on the application). The primary source of supply is a 16-inch well on Helen Avenue, equipped with a 40-HP pump capable of producing 839 gallons of water per minute at 40 pounds pressure, discharging into a 5000-gallon pressure tank. Emergency standby water is available through a connection with the Boe-del Heights Mutual Water Company system which has a 20,000-gallon reservoir. Applicant also has a well located immediately north of the Oasis Palms Estates subdivision which was tested to produce 735 gallons of water per minute with a 25-HP pump. Applicant proposes

to acquire the two wells and equipment, and the system, and to place the well No. 2 into production as soon as needed.

There are no meters at present although applicant proposes to eventually meter all services and stated it will install approximately 50 meters per year.

There are 12 fire hydrants in the Oasis Palms Estates subdivision which are owned and maintained by applicant. Applicant does not propose to file a tariff for fire hydrant service.

Rates

Applicant proposes schedules of rates as follows:

Before Metering: Flat rate per house, domestic use only, \$7.00 per month.

Quantity Rates:	<u>Per Meter Per Month</u>
First 500 cu. ft. or less	\$ 2.15
Next 2,000 cu. ft., per 100 cu. ft.18
Next 7,500 cu. ft., per 100 cu. ft.14
Over 10,000 cu. ft., per 100 cu. ft.10
<u>Minimum Charge:</u>	
For 5/8 x 3/4-inch meter	\$ 4.00
For 3/4-inch meter	5.00
For 1-inch meter	7.50
For 1½-inch meter	10.00
For 2-inch meter	15.00

The minimum charge will entitle the customer to the quantity of water which that minimum charge will purchase at the quantity rates.

Special Condition No. 1

Services may be metered at any time, at the option of the utility.

The staff (Exhibit No. 8) estimated that in 1959 under the proposed flat rates, applicant would have a return of 7.1 percent on a rate base of \$27,030, and under metered rates would have a return of 2.93 percent on a rate base of \$30,050.

The staff recommended that flat rate services be discontinued and water furnished on a metered basis only. This recommendation was based on the showing that applicant intends to meter all services and will proceed with metering at the rate of 50 meters per year. As the applicant has approximately 60 connections at present and intends to meter all services, applicant will be required to meter all connections made after the effective date of the order, and to completely meter all existing services and discontinue its flat rate service for regular consumers by December 31, 1960. In addition, applicant should file rates for all services it will continue to render, including irrigation and construction water sales, in accordance with the provisions of General Order No. 96. The staff pointed out that the proposed minimum charge for metered water is less than the minimum charge for the smallest meter. In order that the quantity rates will be consistent with the proposed minimum charge, the quantity allowance for the initial block will be increased to 1,500 cubic feet at the \$4.00 minimum charge proposed and the second quantity block will be modified accordingly. The schedules of rates will be authorized with the requirement that the flat rate schedule will be temporary and that applicant meter all regular services by December 31, 1960.

The Stock Issue

Applicant proposes to issue to Frank Hart, Robert Hart, and the HLH Development Company, stock to cover the depreciated historical cost of the water system installed in 1956 on the Oasis Palms subdivision. This cost allegedly was \$41,893.80 (Exhibit No. 7, Table B). In addition, applicant proposes to issue to the same parties in exchange for cash 1120 shares of stock of the par value of \$11,200 for working cash and additional facilities to be installed on well No. 2 estimated to have a probable cost of \$8200.

Both the staff and the applicant agreed that certain organizational expenses of the total sum of \$244.67 were paid by applicant, and certain supplies, land and a reservoir furnished by applicant of the total cost of \$234.50. These items totaling \$479.17 will be deducted from the authorized stock issue.

In addition, the applicant stipulated that items totaling \$610.00 should be eliminated from the request. Included are \$525 paid to a trustee, \$75 for drawing a trust agreement, and \$10 for preparing a deed of trust.

Also, the staff requests that certain additional items be disallowed as the basis of stock issue. Included are Mr. Hart's time, spent in organizing the corporation, of the stated value of \$500; the time spent to set up the corporation's books in the amount of \$100; Mr. Hart's time in engineering and supervising the installation of the system, charged to the plant account, in the amount of \$1000 less \$66 for depreciation, leaving a net of \$934; and water rights for well No. 1 in the amount of \$4,450.

The applicant gave no basis for including the \$500 of Mr. Hart's time in organizing the company and this item will be disallowed.

The setting up of the accounting records in the amount of \$100 appears to be within the contemplation of the Uniform System of Accounts, Account 301, Organization.

The applicant paid \$750 to have the complete original system engineered. It also desires to issue \$934 worth of stock to Mr. Hart for supervision in addition, as a proper overhead charge on the plant. This is a small system and the original \$750 fee appears reasonable. The \$934 additional will be disallowed as excessive.

The water rights appear to be an indefinite item. As explained herein (Exhibit No. 7), the seller of the service area would have sold it with or without water rights. Without water rights and well No. 1, the land was offered at \$7,030 less than with such items. The predecessor of applicant (H.L.H. Land Company) received \$600 on the existing pump in the well in trade for a new pump. In 1955 the well itself cost \$1,980. Applicant reasons that deducting the original cost of the well and the \$600 trade-in value of the pump leaves a difference in the purchase price of \$4,450 and assesses this as the value of the water rights. It asks that stock be issued for that amount in exchange therefor. This request will be denied. It appears that there are other water sources in the area including the Boedel Heights Mutual Water Company and the City of Indio. Although it was hinted in the record that water in the underground basin has all been appropriated, there was no proof thereof. The cost of the well and the equipment thereon appear to be the only proper items to be included in the rate base.

The total of the items to be eliminated from the proposed stock issue is \$6,973.17.

Applicant will be authorized to issue not to exceed 4600 shares of stock of the total par value of \$46,000 to the parties and for the purposes specified in the application and in the opinion herein. This will give applicant approximately \$11,079 for working cash and to complete well No. 2.

Conclusion

From the record herein it appears and we find that public convenience and necessity require the granting of the certificate of public convenience and necessity as hereinafter set forth, subject

to the conditions set forth in the order herein and to the following provision of law:

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.

Case No. 6151 having resulted in the issuance by the

Commission of Decision No. 58078 which, among other things, declared that Oasis Palms Water Company is a public utility water corporation, the complaint therein may not now be withdrawn by the complainant. The order which follows will provide for the dissolution of the prohibitions against the extensions of service contained in said decision.

It further appears and we find that applicant Oasis Palms Water Company shall be permitted to file the schedule of rates as set out in Appendix A of the order herein.

The Commission is of the opinion and finds that the money, property or labor to be procured or paid for by the issuance of the stock herein authorized to be issued by Oasis Palms Water Company is reasonably required for the purposes specified herein and that such purposes are not in whole or in part, reasonably chargeable to operating expenses or to income.

In issuing our order herein, we place Oasis Palms Water Company and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the approval herein given is not to be construed as a finding of value of applicant's stock or properties nor as indicative of amounts to be included in a future rate base for the determination of just and reasonable rates.

O R D E R

The above-entitled matters having been filed, public hearing having been held thereon, the matters having been submitted, and the Commission having made the foregoing findings and based upon said findings,

IT IS ORDERED:

- (1) That Application No. 40172, the application of Rancho Ramon Water Co., be, and it hereby is, dismissed.
- (2) That the temporary restraints ordered by Decision No. 58078, dated March 2, 1959, in Case No. 6151, are hereby dissolved.
- (3) That ordering paragraph (1) of Decision No. 58078 shall remain binding and in full force and effect.
- (4) That Oasis Palms Water Company, a California corporation, be, and it is, granted a certificate of public convenience and necessity to construct and operate a public utility water company in the following described place and area:

That portion of the SW $\frac{1}{2}$ of Section 15 south of U.S. Highways 60, 70 and 99, and the west $\frac{1}{2}$ of Section 22, excepting therefrom the NE $\frac{1}{2}$ of the SW $\frac{1}{2}$ of Section 22, T5S, R7E, SBB&M.

IT IS HEREBY FURTHER ORDERED:

- (1) That Oasis Palms Water Company be and it is authorized and directed to file, within thirty days after the effective date of this order, the rates set forth in Appendix A attached hereto, to be effective on or before the date service is first rendered to the public under the authority herein granted, together with rules and a tariff service area map acceptable to this Commission and in accordance with the requirements of General Order No. 96. Such rates, rules and tariff service area map shall become effective on five days' notice to the Commission and to the public after filing as hereinabove provided, and shall be in place and stead of any rates, rules and tariff service area map heretofore filed pursuant to ordering

paragraph (3) of Decision No. 58078.

(2) That Oasis Palms Water Company shall meter all new service connections and shall, prior to December 31, 1960, meter all service connections and shall report compliance with this provision to the Commission in writing within ten days thereafter.

(3) That within sixty days after the effective date of this order, Oasis Palms Water Company shall file with this Commission, four copies of a comprehensive map drawn to an indicated scale not smaller than 300 feet to the inch, delineating by appropriate markings the various tracts of land and the territory served, the principal water production, storage and distribution facilities and the location of its various water utility properties.

(4) That Oasis Palms Water Company, beginning with the year 1959, shall determine depreciation expense by multiplying the depreciable utility plant at a rate of 2.7 percent. This rate shall be used until review indicates that it should be revised. Applicant shall review the depreciation rate using the straight-line remaining life method when major changes in utility plant composition occur and at intervals of not more than five years, and shall revise the above rate in conformance with such reviews. Results of these reviews shall be submitted to this Commission.

(5) That Oasis Palms Water Company may issue not to exceed 4600 shares of its \$10 par value stock to the parties and for the purposes specified in the foregoing opinion.

(6) That Oasis Palms Water Company shall file with this Commission monthly reports as required by General Order No. 24A, which order insofar as applicable is hereby made a part of this order.

(7) That Oasis Palms Water Company shall, prior to December 31, 1959, install suitable measuring devices at each source of supply and shall report compliance with this provision to the Commission in writing within ten days thereafter.

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

Dated at San Francisco, California, this 21st day of July, 1959.

Cecil R. Page
 President

W. L. ...

W. ...

Theresa ...

Commissioners

Commissioner *La. Lynn Fox*, being necessarily absent, did not participate in the disposition of this proceeding.

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Oasis Palms and vicinity, approximately one-half mile west of the City of Indio, San Bernardino County.

RATES

Quantity Rates:

	<u>Per Meter</u> <u>Per Month</u>
First 1,500 cu.ft. or less	\$ 4.00
Next 1,000 cu.ft., per 100 cu.ft.18
Next 7,500 cu.ft., per 100 cu.ft.14
Over 10,000 cu.ft., per 100 cu.ft.10

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 4.00
For 3/4-inch meter	5.00
For 1-inch meter	7.50
For 1 1/2-inch meter	10.00
For 2-inch meter	15.00

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

Schedule No. 2LX

LIMITED TEMPORARY FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on a flat rate basis.

TERRITORY

The unincorporated area known as Oasis Palms and vicinity, approximately one-half mile west of the City of Indio, San Bernardino County.

RATE

	<u>Per Month</u>
For each service connection	\$ 7.00

SPECIAL CONDITIONS

1. Service under this schedule will be furnished to existing customers only until such time as meters are installed, but no later than December 31, 1960.
2. This schedule will be effective only to and including December 31, 1960 and will thereafter be withdrawn.