

**ORIGINAL**

Decision No. 60260

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
RANCHO RAMON WATER COMPANY, a  
 California corporation, for authori-  
 zation to increase its rates charged  
 for water service.

Application No. 41718  
 Amended

John Moore Robinson, secretary, and Charles W. Drake,  
 consultant, for applicant.  
William E. Vernon, for Painted Hills Ranchos;  
Hazel A. King, for Valley View Ranchos;  
Harold J. Arnett, for Thousand Palms Property  
 Owners Association; W. D. Newberry, for North  
 Palm Springs Chamber of Commerce; and John Adams,  
 in propria persona; protestants.  
Martin J. Portex, attorney, and Donald B. Steger,  
 engineer, for the Commission staff.

O P I N I O N

Rancho Ramon Water Company, a corporation, by the above-entitled application filed December 2, 1959, seeks authority to increase its rates for water service in its several operating systems in unincorporated territory in Riverside County in Coachella Valley in the vicinity of Indio, Palm Springs, Garnet Gardens, Cathedral City and Desert Hot Springs, and in unincorporated territory of San Bernardino County in Paradise Valley in the vicinity of Joshua Tree along 29 Palms Highway.

The proposed increase represents a straight across-the-board increase of 100 percent, and for the year 1959 estimated would produce additional revenues of approximately \$59,000.

On January 25, 1960, the applicant filed its First Amendment requesting the Commission to issue its ex parte order granting

the application and authorizing the applicant to immediately place into effect, on an interim basis, the rates as requested in the original application. Said request was based on the allegation that the applicant's latest financial statements showed the existence of emergency financial conditions.

On February 18, 1960, the applicant presented additional evidence to the Commission by the filing of its Second Amendment to the application purporting to show the need for immediate interim relief as requested in the First Amendment.

Public hearings were held before Examiner Stewart C. Warner on April 20 and 21, 1960, at Indio. About 100 customers attended the hearings and several protested on behalf of groups of others. Petitions containing a total of 168 signatures from customers in the North Palm Springs, Rancho Ramon, and Palm Springs Oasis areas protesting the application were submitted. In addition, about 40 letters were received from customers in Section 20 in Paradise Valley; Section 8 in Desert Hot Springs; Shangri La-Thousand Palms; North Palm Springs; and Valley View Ranchos areas complaining of service conditions and protesting the application. At said hearings the First and Second Amendments were submitted for decision, and the matter of the original application was continued to a date to be set. The applicant has completed its case in chief and rests on evidence adduced at the hearings and a prima facie showing through its original application, and its Amendments thereto.

#### General Information

The applicant was granted certificates of public convenience and necessity to furnish water service in some 25 separate operating systems in unincorporated territory of Riverside and

San Bernardino Counties by the following decisions: Decision No. 48421, dated March 30, 1953, in Application No. 34028; Decision No. 52479, dated January 16, 1956, in Application No. 37452; and Decisions Nos. 52621, dated February 14, 1956, 53451, dated July 16, 1956, and 55274, dated July 15, 1957, in Application No. 37389 Amended. Each of the areas is desert land and sparsely populated. Some of the areas were formerly served by mutual water companies which applicant acquired and in which the record shows the applicant has greatly improved water service despite the poor condition of water systems installed by predecessor owners and despite problems arising from hot water wells and excessive fluoride content of wells in the B-Bar H Ranch area near Desert Hot Springs.

As of April 1, 1960, applicant was furnishing water service to 1,079 general metered service domestic customers.

Rates

Applicant's present rates were authorized by Decisions Nos. 55111, dated June 11, 1957, in Application No. 38833, and 55909, dated December 10, 1957, in Application No. 37389 Amended. The following tabulation compares applicant's present rates for general metered service with those proposed herein.

General Metered Service Rates

Quantity Rates:	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
First 1,000 cu. ft. or less .....	\$3.50	\$7.00
Next 3,000 cu. ft., per 100 cu. ft. ....	.275	.55
Next 5,000 cu. ft., per 100 cu. ft. ....	.22	.44
Over 9,000 cu. ft., per 100 cu. ft. ....	.15	.30

Corresponding increases in minimum charges for various sized meters are proposed, the most common being for 5/8 by 3/4-inch meter from \$3.50 to \$7.00, and for a 3/4-inch meter from \$4.50 to \$9.00. Many customers are seasonal or weekend users and the record

shows that the applicant receives numerous requests for the turning off and turning on of service, and frequent requests for removal and reinstallation of meters; the estimated cost thereof to the applicant is about \$15.00 per request due to the long distances between service areas. No request is contained in the instant application for authorization of a charge for such services, which are now rendered without charge. Nor is authorization sought to increase the presently authorized charge of \$2.50 for restoring service after disconnection due to nonpayment of bills. All services are metered.

Basis for Emergency Interim Rate Relief

Two of applicant's witnesses, its consultants, relied on data shown in Exhibits "A" through "D" of the First Amendment, and "A" and "B" of the Second Amendment, to support the allegation of an emergency financial condition of such dire nature that emergency rate relief in the amount sought by the original application was justified. Their testimony purported to show that applicant's projected cash requirements for the year 1960 would exceed cash on hand as of January 1, 1960, plus cash collections through December, 1960, by approximately \$58,000 as shown in Exhibit "A" of the Second Amendment. The record shows that the applicant has not paid the second half of its 1957-58 ad valorem taxes to Riverside County amounting to \$4,477, its 1958-59 taxes of \$9,991, and its 1959-60 taxes of \$15,329. However, the applicant has sold a well No. 17 in the Palm Springs - Cathedral City area to the State of California in satisfaction of the 1957-58 taxes, and a well No. 14 in the same area in satisfaction of the 1958-59 taxes. Neither of said wells was being used by the applicant at the time of its sale. Both of said wells may be reclaimed within five years by the applicant upon the payment of taxes due.

The record shows that the applicant's water system expanded through advances for construction by over \$200,000 during the

year 1958, and by nearly \$200,000 during the year 1959, and that the applicant additionally expended approximately \$260,000 on improvements to its water system in the year 1958. Total depreciated fixed assets as of December 31, 1959, amounted to \$1,610,928.30 after deducting the recorded depreciation reserve of \$116,792.78.

Applicant's financial statement for the year 1959, Exhibit "B" of the Second Amendment, showed total operating revenues of \$73,049.38, total operating expense of \$119,471.28 including depreciation expense of \$37,018.20, and net operating loss of \$46,421.40.

Exhibit No. 6 is a preliminary financial report on the applicant submitted by a Commission staff accountant witness. Said exhibit shows that statements of applicant's results of operations attached to the application and its amendment have not been audited by independent public accountants and are unverified; that although current liabilities as of February 29, 1960 greatly exceeded current assets, the principal creditors were associated companies; that said liabilities largely represented interim financing which, in the normal course of business, could be expected to be replaced by equity financing or to be funded by long-term debt; that applicant's monthly bank balances for the period January 1, 1959 to February 29, 1960 varied from \$1,637.93 on February 28, 1959 to \$29,879.46 on July 31, 1959; that no excessive demands on cash from trade accounts payable have been made; and that an amount of \$4,085.29 was owing to the applicant from its parent company, La Mirada Water Company, as of February 29, 1960, which could be demanded if required.

Exhibit No. 6 shows that applicant's operating losses for the years 1958 and 1959 and for the period January 1, 1960 to February 29, 1960 reflect substantial depreciation, ad valorem taxes,

and insurance costs; that applicant's net operating cash flow as modified for the year 1959 was \$7,997, and for the period January 1, 1960 to February 29, 1960 was \$2,343; and that despite operating losses during these periods, the applicant was able to generate cash from its operations.

Table F of Exhibit No. 6 shows that the applicant's monthly cash receipts for the period January 1, 1959 to February 29, 1960 were chiefly from construction activities and that the applicant's activity is largely developmental rather than operational.

Findings and Conclusions with Respect to First and Second Amendments

Although the Rancho Ramon Water Company has alleged emergency financial conditions, it is found as a fact and concluded that the record herein will not support a finding that such emergency conditions exist.

It is obvious that the projected cash requirements for the year 1960, Exhibit "A" of the Second Amendment, are inaccurate, unreliable, and unrealistic. For example, they do not anticipate any increase in gross operating revenues for the year 1960, whereas the record shows that the applicant has recently received some 44 new applications for service, and is installing a substantial water system in Palm Springs Panorama, a \$75 million development in the Rancho Ramon - Cathedral City area; they include a payroll adjustment for additional employees of \$15,598 not explained in the record; and they include \$5,000 of Regulatory Commission expense which is unsupported in the record as to its reasonableness.

It is found as a fact and concluded that the public interest requires that the First and Second Amendments to the application requesting interim relief be denied.

Findings and Conclusions with  
Respect to Original Application

In the First Amendment, filed January 25, 1960, the applicant alleged that an inventory and historical cost valuation, including a depreciation reserve requirement study, would be necessary before it could produce a full and complete showing at the permanent rate setting hearing. Applicant further alleged that such inventory and historical cost valuation could not be completed before June 1, 1960, and that a final complete summary of operations report could not be completed before August 1, 1960.

As noted hereinbefore, however, the applicant has completed its showing on not only the First and Second Amendments but also on the original application itself. Cross-examination of the testimony and evidence on the original application has been conducted. Such cross-examination reveals that the applicant's estimates of earnings for the test year 1959 are unreliable and unrealistic. For example, such estimates are based on a method of simply doubling applicant's recorded expenses for the first six months of 1959 without analysis or normalization, and these estimates, as in the cases of projected cash requirements and the estimate of Regulatory Commission expense, are unsupported in the record as to their accuracy, reliability, and their reasonableness. Further, the applicant submitted an estimated depreciated rate base for the test year 1959 of \$713,000. Such rate base does not take into account an offer of a stipulation by applicant's secretary at the hearing on April 11, 1956 on Application No. 37389 (Tr.pp.327 and 328) that then and in the future, notwithstanding the cost paid for the facilities acquired under said application, if any such facilities or stocks or obligations of the applicant were acquired at less than the cost thereof on the books of the applicant, that for rate making and earning purposes, such latter acquisition costs should prevail and should be used solely and

only for the determination of earnings and for rate making purposes.

It is further found as a fact and concluded, therefore, that the public interest requires that the original application also be denied.

ORDER

Application as above entitled, as amended, having been filed, public hearings having been held, the matters of the First and Second Amendments seeking emergency interim rate relief having been submitted and now being ready for decision, the matter of the original application having been continued to a date to be set, but now having been further considered,

IT IS HEREBY ORDERED that the First and Second Amendments to the original application of Rancho Ramon Water Company, a corporation, which said Amendments request authority to immediately place into effect, on an interim basis, the rates requested in its said original application as indicated in Exhibits E-1 and E-2 attached thereto be, and they are, denied.

IT IS FURTHER ORDERED that the original application of Rancho Ramon Water Company, a corporation, for authority to increase its rates for water service be, and it is, denied.

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

Dated at San Francisco, California, this 14<sup>th</sup> day of June, 1960.

[Signature]  
President  
[Signature]  
[Signature]  
[Signature]  
Commissioners