

ORIGINAL

Decision No. 74093

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PANORAMA HEIGHTS
WATER CO., INC. for Authority to
Increase its Rates and Charges
for Water Service, and for Interim
Emergency Rate Relief; and for
Authority to Issue a Promissory
Note.

)
Application No. 49584
(Filed August 1, 1967)

OPINION AND ORDER

By this application, Panorama Heights Water Co., Inc. seeks authority to increase its rates for water service by 150 percent, across-the-board, and to issue a promissory note. Authority on an emergency interim basis was granted to applicant by Decision No. 73204, dated October 17, 1967, to put into effect increases in rates approximating 30 percent.

A Commission staff engineer and a Commission staff accountant have investigated the application, and the results of such investigation were submitted on March 6, 1968 in a report which is made part of the record as Exhibit No. 1. Said exhibit outlines applicant's service and present operations, and points out that the water system is manually operated resulting in low pressures and inadequate water supply from time to time at or near the elevations of the upper and lower storage tanks. The tanks run dry due to lack of attention to the pumps in the wells during the periods of maximum demand on the system. Sand in the water is reported.

Exhibit No. 1 also contains accounting and financial data, and a review of applicant's ability to service the interest requirements on the \$15,000, 6-percent note which the applicant seeks authority to issue.

Because applicant's utility plant is virtually complete and capable of serving 200 customers at ultimate development of its certificated area, and water service is presently being furnished to only 52 metered and 8 flat-rate customers, the staff applied a 40 percent saturation factor to mains and hydrants in recommending its 1967 estimated rate base of \$21,930. The factor was obtained by dividing an estimated near future number of 63 customers by a reasonably expected long range development of 150 customers. The staff engineer treated non-active advances by subdividers as contributions, since all subdivision contracts were verbal agreements; some of which were discontinued when property changed hands. Advances for construction and the said contributions were deducted by the staff from average utility plant in its determination of the 1967 estimated rate base.

Applicant estimated a loss of \$3,290 at the rates in effect prior to the interim decision, which said rates had been in effect since 1959 and were applicant's initially established rates. A rate of return of 4.7 percent on a rate base of \$39,474, applicant alleged in the application, would have resulted in the year 1966 adjusted, from gross operating revenues of \$9,040 at the proposed rates and from net revenues of \$1,860, which included interest of \$900 as an expense. By deleting interest expense, net revenues at the proposed rates would have been \$2,760 and the rate of return would have been 7.0 percent.

The Commission staff, in Exhibit No. 1, estimated a loss of \$890 for the year 1967 at the original rates. It estimates a rate of return of 0.5 percent on its rate base of \$21,930 resulting from estimated operating revenues of \$4,710 at the interim rates, and net revenues of \$110. The rate of return would have been 15.1 percent for the year 1967 with estimated operating revenues of \$9,040 and net revenues of \$3,320 at the proposed rates.

The staff recommended that the applicant be authorized to file rates which would have produced gross operating revenues of \$6,580 for the estimated year 1967. Such revenues would have produced a 7.0 percent rate of return on the staff-estimated rate base of \$21,930 for the test period 1967.

Several recommendations for the improvement of applicant's operations were submitted by the staff on pages 8 and 9 of Exhibit No. 1.

The staff recommended a 7.0 percent rate of return for this utility.

The Commission finds as follows:

1. Applicant is in need of additional financial relief, despite the 30 percent emergency interim increase in rates for water service granted by Decision No. 73204, dated October 17, 1967. The rate of return for the estimated test year 1967, at the interim rates of 0.5 percent on a rate base of \$21,930 calculated by the staff in Exhibit No. 1, is deficient.

2. The estimated rate of return of 15.1 percent for the test year 1967 on the staff rate base of \$21,930, which would have been produced by the rates proposed in the application, is excessive.

3. The rate of return of 7.0 percent for the test year 1967, which would have been produced by the schedules of rates recommended by the staff in Exhibit No. 1, and which would have produced gross operating revenues of \$6,580, together with the rate of return components submitted by the staff in Exhibit No. 1, are reasonable, and they should be adopted.

4. The financial and engineering recommendations submitted by the staff in Exhibit No. 1, on pages 8 and 9 thereof, are reasonable and should be adopted.

5. Public hearing is not necessary.

6. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

7. Applicant's earnings, as projected for the immediate future, based on the earnings for the test year 1967, calculated by the staff in Exhibit No. 1, will not service its proposed \$15,000, 6-percent promissory note.

It is concluded that the application should be granted in part and denied in part, and that applicant should be authorized to file the schedules of rates attached to Exhibit No. 1 as Appendices A and B. Said rates would have resulted in an increase in gross revenues for the year 1967 estimated of \$2900, or 79 percent, over applicant's original rates which had been in effect since March, 1959, and an increase of \$1870, or 40 percent, over the emergency interim rates authorized by Decision No. 73204, dated October 17, 1967. The aforementioned overall authorized increase of \$2,900 is \$2,460 less than the overall increase of \$5,360 requested in the application.

The Commission recognizes that the authorized rates are higher than those of adjacent suppliers. For monthly consumption of 500 cubic feet, the monthly charge will be \$5.40; for 1,000 cubic feet, \$9.90; for 1,500 cubic feet, \$14.40; for 2,000 cubic feet, \$18.90; for 3,000 cubic feet, \$27.90; for 5,000 cubic feet, \$44.10; and for 10,000 cubic feet, \$80.10. The basic cause of the applicant's relatively high rates for water service is the small number of customers served related to the cost of pumping, storing, and delivering water thereto. Water service in sparsely populated upper and lower desert regions is necessarily costly.

The application to issue a note should be denied without prejudice.

IT IS ORDERED that:

1. After the effective date of this order, Panorama Heights Water Co., Inc. (applicant) is authorized to file the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.

2. Within ten days after the effective date of this order, applicant shall file the limited flat rate service schedule attached to this order as Appendix B. Such filing shall comply with General Order No. 96-A. The effective date of the new rate schedule shall be the date of filing and the schedule shall apply to service rendered on and after the effective date thereof.

3. Within ninety days after the effective date of this order, applicant shall obtain written main extension contracts to replace its current five active verbal main extension contracts. Said written contracts shall be on the same main extension contract form for individuals as now on file in applicant's tariff book.

4. Within ten days after these contracts have been completed, applicant shall submit to the Commission a list of the contracts with the names of each of the parties thereto. If the refund provisions are different from the requirements of applicant's main extension rule for individuals, applicant shall request Commission authority for such deviations.

5. Within one hundred eighty days after the effective date of this order, applicant shall investigate the feasibility of installing control devices on its pumps and reservoirs to automatically actuate the pumps when the water in the reservoirs reaches a predetermined low level, and to turn off the pumps when the water in the reservoirs reaches a predetermined high level. A written report shall be submitted to the Commission within thirty days after completion of the investigation.

6. Within one hundred eighty days after the effective date of this order, applicant shall submit to the Commission a plan to provide adequate service to the customers in the vicinity of the storage tanks, with a schedule for implementation of the plan.

7. Applicant shall prepare and keep current the system map required by paragraph I.10.a. of General Order No. 103. Within ninety days after the effective date of this order, applicant shall file with the Commission two copies of this map.

8. For the year 1968, applicant shall apply a depreciation rate of 3.0 percent to the original cost of depreciable plant. Until review indicates otherwise, applicant shall continue to use this rate. Applicant shall review its depreciation rates at intervals of five years and whenever a major change in depreciable plant occurs. Any revised depreciation rates shall be determined by (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the result by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of the plant. The results of each review shall be submitted promptly to the Commission.

9. By December 31, 1968, applicant shall record on its books of account the staff adjusted balances for utility plant accounts, advances for construction, contributions in aid of construction, and depreciation reserve at December 31, 1966, as set forth in the first column of the tabulation entitled "Utility Plant and Rate Base" on page 5 of Exhibit No. 1.

10. Applicant's request to issue a promissory note in the amount of \$15,000 bearing interest at 6 percent per annum is denied without prejudice.

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

Dated at San Francisco, California, this 14th day of MAY, 1968.

[Signature]
President
[Signature]
[Signature]
Commissioners

APPENDIX A

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Panorama Heights and vicinity, located approximately 10 miles west of Twentynine Palms, San Bernardino County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 500 cu.ft. or less	\$ 5.40	(I)
Next 3,500 cu.ft., per 100 cu.ft.90	
Next 16,000 cu.ft., per 100 cu.ft.72	
Over 20,000 cu.ft., per 100 cu.ft.54	(I)
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 5.40	(I)
For 3/4-inch meter	8.00	
For 1-inch meter	12.00	
For 1 1/2-inch meter	25.00	
For 2-inch meter	40.00	
For 3-inch meter	65.00	
For 4-inch meter	124.00	(I)

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

APPENDIX B

Schedule No. 2L

LIMITED RESIDENTIAL FLAT RATE SERVICEAPPLICABILITY

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

TERRITORY

Panorama Heights and vicinity, located approximately 10 miles west of Twentynine Palms, San Bernardino County.

RATES

	<u>Per Service Connection Per Month</u>
For a single family residence or residential unit, including premises	\$6.00
For each additional single family residence or residential unit, including premises, served from the same service connection	\$6.00

SPECIAL CONDITIONS

1. Service under this schedule shall be limited to the premises being served as of the effective date of this tariff sheet.

2. Meters will be installed at the option of the utility or the customer for the above classifications. In the event a meter is installed, service thereafter will be rendered only on the basis of Schedule No. 1, Metered Service.