

Decision No. 87750 AUG 23 1977

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of }  
 ROSSMOOR WATER COMPANY, for an }  
 Order Authorizing a Raise in Rates. }

Application No. 56299  
 (Filed February 26, 1976;  
 amended March 11, 1977)

Rutan & Tucker, by Milford W. Dahl, Attorney at Law,  
 for applicant.  
 Whelan & Markman, by Martin E. Whelan, Attorney at Law,  
 for Professional Community Management, and Mutual  
 Housing Corporations Inside Leisure World, protestants.  
Jasper Williams, Attorney at Law, Francis S. Ferraro  
 and I. B. Nagao, for the Commission staff.

INTERIM OPINION

This is an application by Rossmoor Water Company for authority to increase water rates by about 24 percent. Public hearings were held at Laguna Hills before Administrative Law Judge J. E. Thompson June 21, 1977 through June 24, 1977 and the matter was submitted.

Applicant is a wholly owned subsidiary of Rossmoor Corporation, a land developer. At some time prior to 1963 the latter acquired approximately 3,600 acres of the Moulton Ranch located in the southeast portion of Orange County near Laguna Hills for the purpose of development. The parent organized applicant for the purpose of supplying water to the development. It also organized Rossmoor Sanitation, Inc., another wholly owned subsidiary, for the purpose of providing sewer service to the development.

Applicant's initial service area embraced the parent corporation's proposed development for planned housing and related support business of a commercial classification. The development is essentially a planned adult community, known as Leisure World, with most of the residences in condominium groups. The groups are in separate

tracts each of which is organized as a mutual housing corporation with each residence in the tract being a member and sharing expenses of maintenance of common areas within the tract. The mutual housing corporations engage an entity known as Professional Community Management to take care of the operations and maintenance within each tract and to apportion the common expenses among the members in each corporation.

The water system within the Rossmoor development was designed and constructed in accordance with the foregoing concept. Each corporation or tract is served with one or more large meters. The distribution system behind the meters is the responsibility of the tract. There are as many as 23 residences served by a single meter.

Shortly after the formation of applicant, developers other than Rossmoor Corporation acquired parcels adjacent to applicant's initial service area and requested extensions for water service. The extensions were made pursuant to filings with the Commission. The "outside" developments include single-family dwellings on separate lots, condominiums, and commercial establishments. Those extensions were made pursuant to applicant's main extension rule (Rule 15), and are served by most of the  $5/8 \times 3/4$  meters in applicant's system.

For the past few years applicant has engaged in a program of promoting conservation of water. It has been reasonably successful but some of that success has had unexpected and untoward results. Its affiliate, Rossmoor Sanitation, Inc., provides sewer service to most of the area served by applicant. The lessening of water flow in the sewerage increased the percentage of the solids to be treated resulting in higher mineral content of the effluent. That in turn,

portended severe problems in the disposal of effluent.<sup>1/</sup> Our staff recognized the problems and applicant has been exempted from the requirement that water conservation devices (shower head flow restricters and toilet bowl devices) be installed within residences. Applicant's conservation efforts therefore now have been directed to use of water outside of the dwelling. In this regard it has had the cooperation of Professional Management Services within Leisure World. Landscaping requiring high use of water has been and is being replaced with the more drought-resistant plants and shrubs, irrigation of landscaping is regulated with potentiometers and is performed only when a man is present. In many instances sprinkler systems have been redesigned and replaced to make optimum utilization of water.

Evidence was presented regarding the values of the residences within applicant's service area and concerning the economic circumstances of the population generally within the area. The residences were constructed since the commencement of the development of Leisure World. The average resale value of condominiums within Leisure World currently is lower than those in the "outside developments". The average price of sales of new construction is approximately the same within Leisure World as in the outside developments. The prices of the residences exceed those which would be attractive

---

<sup>1/</sup> The golf course grounds in Leisure World are irrigated with effluent sold by applicant's affiliate, Rossmoor Sanitation, Inc. Disposal of additional effluent, at Sanitation's discretion, is on Irvine Ranch property where it is used for irrigation. Increases in content of certain minerals in the effluent, such as boron, could cause damage to plant life and to the soil. Economical disposal of the treated sewerage requires that the parts per million of those minerals in the effluent not exceed tolerable limits.

to persons of relatively low income. Leisure World has a relatively higher percentage of residents on fixed incomes than is the case outside. During March 1977 some 1,046 residents of Leisure World sought advice regarding application for senior citizen tax relief.

Both applicant and staff in the development of proposed rate structures attempted to give effect to lifeline concepts in the rates by freezing the rates for the 5/8" x 3/4" meters and by freezing the rates for the first 200 cubic feet of water. Staff attempted to implement the policy of the Commission of promoting conservation of water through rates by eliminating the quantity rate blocks. Those procedures are consistent with methods which heretofore have been prescribed by the Commission to achieve those objectives.

Protestant, however, most ably points out that by reason of the singular nature of applicant's system, and the demographics of the area served, that those methods would not only fail to achieve the objectives but would actually accomplish an opposite result. The facts in this case show that protestant's position has merit. It would appear that any sociological objectives in the lifeline concept would have little relevance in the area served by applicant; however, the methods used by applicant and the staff to implement that concept would in fact place the burden of the increase upon those less able to assume it. It is also a peculiarity that the design of rates which ordinarily would implement conservation measures would not serve the needs here, and in fact would be unduly discriminatory against the residential customer who uses less water and whose service provides the lesser cost burden to the company. After the evidence was in, it became apparent to the parties that the usual approach for establishing rates which would give recognition to lifeline and conservation concepts would not be appropriate in this case. Applicant moved for an interim increase of 15 percent in present rates

pending consideration of its case. Staff recommended an interim increase of 10 percent. Protestant stated that it was not prepared to make any recommendation in that regard, but that it considered the staff's suggestion to be more appropriate than applicant's request.

There is no doubt that applicant urgently requires additional revenues. Its cash flow position was such that payments on main extension contracts due in April could not be made on time from internal funds. An accurate estimate of the additional revenues required may not be made readily from the data in this record. The reason for this is that applicant's original estimates of operating results were prepared prior to the filing of this application and although its amended estimates updated operating expenses, the bases of those estimates remained unchanged. Staff's estimates were made as of September 30, 1976 and in a number of respects they are predicated upon forecasts of conditions that could reasonably have been made at that time. Actual conditions, however, are somewhat different. It is important, however, that whatever relief is needed be granted quickly.

The proposed interim increases would affect rates which currently provide about 99.2 percent of applicant's revenues. The 10 percent increase suggested by staff would provide additional revenues of between \$142,000 and \$150,000. Applicant's requested 15 percent increase would provide between \$213,000 and \$225,000 additional revenues. The data in the record shows an increase in operating expenses exclusive of depreciation and income taxes from 1975 to 1976 in the range of between \$62,000 and \$103,000. The annual interest charge on the bonds issued in July 1976 is \$150,000. As of the date of hearing applicant had spent or was committed to pay

on construction approximately one-half of the proceeds of the bond issue. It should have had the proceeds invested in interest-bearing short-term securities so that the current bond interest would be offset in large part.

We give consideration to the fact that proceedings in this application should be completed in a matter of months, and that it may be reasonably anticipated that a rate structure will evolve which would spread the burden of the costs differently from what has been proposed herein. While the facts thus far developed in this record indicate that something more than \$150,000 additional revenues may be required in order to provide applicant with reasonable operating expenses together with a reasonable return on its investment in properties dedicated to water utility service, we are of the opinion that a 10 percent increase as suggested by the staff will provide sufficient additional revenues to permit payment of operating expenses and provide sufficient funds for payment of debt and not further erode the credit of applicant pending final determination of these proceedings.

We find that:

1. This record does not provide sufficient data from which just, reasonable, and nondiscriminatory rates may be established for applicant's public utility water service.
2. Unless applicant receives at least \$140,000 in additional annual gross revenues from water rates, its credit may be seriously impaired.
3. An emergency 10 percent increase in the water rates set forth in Schedules Nos. 1, 9MC, and 9FC of its tariff is justified pending final determination of this rate application.

We conclude that:

1. The submission of proceedings in this application should be set aside and the matter reopened for the receipt of further evidence at public hearings to be scheduled.

2. Pending determination after further proceedings applicant should be authorized to increase rates maintained in Schedules Nos. 1, 9MC, and 9FC of its tariff by 10 percent.

3. Applicant should be authorized to establish the increased rates to become effective on one day's notice to the Commission and to the public.

4. To avoid unnecessary further erosion of applicant's financial condition, the order should be made effective this date.

INTERIM ORDER

IT IS ORDERED that:

1. Submission of this proceeding is set aside for further hearing at a time and place to be set.

2. Pending determination on further proceedings herein, Rossmoor Water Company, a corporation, is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be one day after the date of filing.

A.56299 fc

The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 23rd day of AUGUST, 1977.

*Robert Bateman*

President

*William J. ...*

*Vernon L. Stinson*

Commissioners

*I dissent.*

*The language on page 4 of this order dealing with lifelines is unintelligent. Finding 1 does not suggest the relief granted.*

*Richard D. ...*

*I abstain*

*Clair J. ...*



A.56299

APPENDIX A

Rossmoor Water Company

At the bottom of Schedules Nos. 1, 9-MC and 9-FC, the following notation will be added in compliance with this decision.

APPLICATION OF SURCHARGE

Compute the amount of charges in accordance with the rates and rules of the schedule and increase the amount so computed by ten percent (10%).