

Decision No. 89866 JAN 16 1979

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the application)
of Pomona Valley Water Company)
for an order authorizing an)
increase in rates for water)
service.)

Application No. 57766
(Filed December 23, 1977)

Donald E. Maroney, Attorney at Law,
for applicant.
I. E. Nagao, E. L. Cooke, and Kenneth
K. Chew, for the Commission staff.

INTERIM OPINION

Applicant Pomona Valley Water Company filed on December 23, 1977 this application to increase rates. The Commission staff, however, has been unable to make, because of limited manpower, a timely investigation into this matter.

Meanwhile, applicant's financial condition, which was precarious, has continued to deteriorate. In that regard applicant, by Advice Letter No. 40, filed May 26, 1978, sought to deviate from its main extension rule. In Resolution No. W-2400, thereon issued July 11, 1978, it was observed that "the utility's current financial difficulties... include outstanding return obligations totalling \$188,116. The staff is of the opinion that the utility be allowed to exceed the 50% advance contract ratio to total capital for service to Tract 9190, but in lieu of the five year moratorium on refunds the utility should petition the Commission in its current rate application for interim rate relief. The petition should

include a showing as to the revenue required to allow the utility sufficient funds to meet its financial obligations."

In response to the staff opinion set forth in the quoted portion of the resolution, applicant filed on July 17, 1978 a petition for interim emergency rate relief seeking the full amount requested in the original application. In addition applicant indicated therein that it would amend its application to seek a higher final rate increase because of a further decline in revenue.

Public hearing on the request for interim rate relief was held on November 2 and 3, 1978 in Chino and on November 20, 1978 in Los Angeles. Applicant and the staff each presented evidence through three witnesses. On December 12, 1978 late-filed Exhibit 18 (revised) was received and the interim phase of this proceeding was thereupon submitted.

The evidence amply demonstrated that applicant is confronted by a financial emergency. According to its balance sheet as of June 30, 1978 current liabilities exceed current assets by a substantial margin:

Current Liabilities:

Accounts payable - trade	\$ 67,594	
Accounts payable - mainline extension contract	212,809	
Loans and notes payable	19,000	
Customer deposits	11,494	
Accrued taxes	3,330	
Other current and accrued liabilities	<u>51,889</u>	
		\$366,116

Current Assets:

Cash on hand and in bank	\$ 42,407	
Accounts receivable	120,198	
Materials and supplies inventory	40,860	
Prepayments	<u>37,726</u>	
		\$241,191

Based on cash-flow studies, there would be a negative cash flow of approximately \$50,000 for the 12-month period ending June 30, 1979 under present rates and of approximately \$20,000 under rates projected to yield a 7.6 percent rate of return. A comparative summary of earnings estimated for the 12-month period ending June 30, 1979 at present rates, at applicant's proposed rates, and at adopted interim rates follows:

Item	Present Rates	Proposed Rates	Adopted Interim Rates
(Dollars in Thousands)			
Operating Revenues	\$ 773.0	\$ 903.9	\$ 817.3
Deductions:			
Operating Expenses	508.5	508.5	508.5
Taxes Other Than Income	50.0	50.0	50.0
Depreciation Expenses	56.4	56.4	56.4
Income Taxes	56.1	122.7	78.7
Total Deductions	671.0	737.6	693.6
Net Operating Revenues	102.0	166.3	123.7
Rate Base	1,628.0	1,628.0	1,628.0
Rate of Return	6.27%	10.21%	7.60%

The above tabulated operating results have been modified to reflect the new federal income tax rates. Otherwise they are as estimated by the staff for use in this interim phase of the proceeding. The estimate of operating expenses reflects rates for Metropolitan Water District water effective January 1, 1979, Southern California Edison Company's electric rates in effect as of July 26, 1978, and an allowance for

water losses of 15 percent which is substantially below an actual level of about 25 percent being experienced. The estimated ad valorem tax is cast at the post-Proposition 13 level. Consistent with recommendations made by the staff's tax expert, for the ratemaking tax computation the investment tax credit treatment was that of Option I, Rate Base Modification method, and tax depreciation and investment tax credits were taken on plant financed with advances for construction when tract occupancy meets or exceeds the 80 percent criterion. ✓

In the staff's view applicant's financial plight appears to have come about primarily through "reliance on advances for construction and internally generated funds to finance its construction program. Although the company has \$3.5 million in assets, it has no long-term debt. . . . What applicant really needs is a long-range financing plan that will enable it to fund its future construction program in an orderly manner." However, under present circumstances applicant is unable to obtain outside financing to meet its main extension obligations which exceed \$200,000. Accordingly, a principal objective of this interim as well as the ultimate rate relief in this matter is to better position applicant to obtain requisite outside financing.

The staff recommends that any interim increase in rates be made on essentially a uniform cents per Ccf basis because applicant's increased operating expenses are attributable in large part to increases in the cost of purchased water and in pumping costs, and also for reasons of simplicity.

Findings

1.a. Applicant is unable to meet its main extension refund obligations.

b. Applicant is experiencing difficulties in financing its construction program.

c. Applicant's ratio of current assets to current liabilities as of June 30, 1978 was 0.66 to 1.

d. Applicant is experiencing a negative cash flow under present rates.

e. The foregoing constitute a financial emergency.

2. Rate relief alone will not enable applicant to meet its financial obligations. A principal objective of both the interim and ultimate rate relief in this matter is to better position applicant to obtain requisite outside financing.

3.a. In this interim rate proceeding, with reliance being placed on less than a full staff study, it is appropriate to hold any rate relief below the increased rates proposed by applicant, which would yield an estimated 10.21 percent rate of return for a 12-month test period ending June 30, 1979.

b. Applicant had originally developed the proposed rates to yield a 7.60 percent rate of return. Interim rates should be set to yield a 7.60 percent rate of return even though such a return is on the low side in relation either to the financial difficulties applicant is experiencing or to the rates of return granted other water utilities by recent Commission decisions.

c. The interim increase of \$44,300, or 5.7 percent, in gross revenues which results is justified.

4. Interim increases in rates approximating a uniform cents per Ccf basis represents a fair and reasonable spread of the interim increase of \$44,300 in gross revenues.

5. The interim increases in rates authorized herein are reasonable; and the present rates, insofar as they differ from those prescribed in Appendix A to this decision, are for the immediate future unjust and unreasonable.

The Commission concludes that applicant's request for interim relief should be granted to the extent set forth in the order which follows. In view of the financial emergency confronting the applicant, the following order should be effective the date of signature.

INTERIM ORDER

IT IS ORDERED that applicant Pomona Valley Water Company is authorized to file with this Commission, after the effective date of this order, 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 each 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.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 16th day of JANUARY, 1979.

Robert Bateman
President
Charles D. Howell
Paul J. Daniels

Commissioners

APPENDIX A
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Schedule No. L-1

Lower Zone

GENERAL METERED SERVICE

APPLICABILITY

Applicable to general metered water service.

TERRITORY

Lower Zone, Los Serranos Village and vicinity, San Bernardino County.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>	
First 800 cu.ft. or less	\$ 4.20	(1)
Next 4,200 cu.ft., per 100 cu.ft. ....	.585	|
Next 20,000 cu.ft., per 100 cu.ft. ....	.375	|
Next 25,000 cu.ft., per 100 cu.ft. ....	.205	|
Over 50,000 cu.ft., per 100 cu.ft. ....	.185	(1)
 Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 4.20	(1)
For 3/4-inch meter	7.00	
For 1-inch meter	10.00	
For 1 1/2-inch meter	18.00	
For 2-inch meter	25.00	
For 3-inch meter	40.00	
For 4-inch meter	60.00	
For 6-inch meter	100.00	

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

SPECIAL CONDITION

The lower zone rates shall apply to that portion of the territory below the Carbon Canyon Boosters.

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Schedule No. U-1

Upper Zone

GENERAL METERED SERVICE

APPLICABILITY

Applicable to general metered water service.

TERRITORY

Upper Zone, Los Serranos Village and vicinity, San Bernardino County

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>	
First 800 cu.ft. or less	\$ 4.70	(I)
Next 4,200 cu.ft., per 100 cu.ft. ....	.605	|
Next 20,000 cu.ft., per 100 cu.ft. ....	.395	|
Next 25,000 cu.ft., per 100 cu.ft. ....	.225	|
Over 50,000 cu.ft., per 100 cu.ft. ....	.205	(I)
 Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 4.70	(I)
For 3/4-inch meter	10.00	
For 1-inch meter	12.00	
For 1 1/2-inch meter	21.00	
For 2-inch meter	30.00	
For 3-inch meter	46.00	
For 4-inch meter	72.00	
For 6-inch meter	120.00	

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

SPECIAL CONDITION

The upper zone rates shall apply to the portion of the territory served water supplied through the Carbon Canyon Boosters.

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Schedule No. 3-M

MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service except golf courses.

TERRITORY

Los Serranos Village and vicinity, San Bernardino County.

RATES

	Per Acre-Foot Per Service Connection Per Month	
Lower Zone Quantity Rates:		
For gravity flow deliveries	\$ 43.00	(I)
For pressure system deliveries	59.50	(I)
Upper Zone Quantity Rates:		
For pressure system deliveries	\$ 70.00	(I)

SPECIAL CONDITIONS

1. The minimum monthly charge per connection (gravity or pressure) is the charge for one acre-foot of water at the applicable zone rate.
2. For each residence served from the irrigation service as of the effective date of this schedule, there is a surcharge of \$1.85 per month.
3. Upper zone rates apply to the portion of the territory served water supplied through the Carbon Canyon Boosters.
4. The utility will establish appropriate meter size and type for each irrigation service.
5. The water supplied under this schedule which was formerly served by Rolling Ridge Ranch is untreated water. The company does not represent or guarantee that any water delivered hereunder, formerly served by Rolling Ridge Ranch, is potable or of a quality suitable for human consumption. Any customer who uses said water or makes it available or offers it to others for human consumption shall take all necessary precautions to make the same potable and shall assume all risks and liabilities in connection therewith.

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Schedule No. 3-ML

GOLF COURSE IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service to golf courses.

TERRITORY

Los Serranos Village and vicinity, San Bernardino County.

RATES

Quantity Rates:	Per Acre-Foot Per Service Connection <u>Per Month</u>	
Lower Zone	\$ 68.00	(I)
Upper Zone	78.50	(I)

SPECIAL CONDITIONS

1. The minimum monthly charge per connection is the charge for one acre-foot of water at the applicable zone rate.
2. Upper zone rates apply to the portion of the territory served water supplied through the Carbon Canyon Boosters.
3. The utility will establish appropriate meter size and type for each irrigation service.
4. The water supplied under this schedule which was formerly served by Rolling Ridge Ranch is untreated water. The company does not represent or guarantee that any water delivered hereunder, formerly served by Rolling Ridge Ranch, is potable or of a quality suitable for human consumption. Any customer who uses said water or makes it available or offers it to others for human consumption shall take all necessary precautions to make the same potable and shall assume all risks and liabilities in connection therewith.

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Schedule No. 6-ML

LIMITED METERED RESALE SERVICE

APPLICABILITY

Applicable to limited metered resale service.

TERRITORY

Upper Carbon Canyon and vicinity, San Bernardino County.

RATES

Quantity Rates:

Per Meter
Per Month

Per 100 cu.ft.\$.255 (I)

Minimum Charge:

For	1 inch meter	.....\$	8.50
For	1-1/2 inch meter	.....	11.80
For	2 inch meter	.....	16.00
For	3 inch meter	.....	28.00
For	4 inch meter	.....	45.00
For	6 inch meter	.....	85.00
For	8 inch meter	.....	140.00

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

SPECIAL CONDITION

Service under this schedule shall be limited to service to San Bernardino Water Works District No. 8 and Mountain View Park Mutual Water Company.