

ORIGINAL

Decision No. 46806

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of DUARTE DOMESTIC WATER COMPANY)
for a certificate of public)
convenience and necessity, for)
establishment of rates, for)
permission to issue shares of)
capital stock, for acquisition)
of properties, for assumption of)
liabilities and for the execution)
of a loan agreement and mortgage.)

Application No. 32839

Trent G. Anderson, attorney, for applicant;
Mort Brandler, for City of Hope Medical
Center, protestant; C. G. Ferguson and
Theo Stein, for the Commission Staff.

O P I N I O N

In this application, filed October 19, 1951, Duarte Domestic Water Company, a corporation, seeks the certificate of public convenience and necessity to operate a public utility water system in unincorporated territory in and about the town of Duarte, Los Angeles County, denied it without prejudice by the Commission's Decision No. 45884, dated June 26, 1951, in Application No. 31393. The application herein being considered is based on the following proposals:

- (1) That applicant shall acquire all of the water system operating facilities, including water production facilities associated with the domestic water system now owned by Duarte Mutual Water Company^{1/}.

^{1/} Hereinafter referred to as the mutual company.

(2) That applicant be permitted to assume the obligation of a \$290,000 note to be issued to Pacific Mutual Life Insurance Company, now outstanding against the domestic properties of the mutual company.

(3) That applicant be permitted to assume the liability for the unrefunded balance of all domestic consumers' advances to the mutual company for construction, as of the date of acquisition of the mutual properties by applicant; and

(4) That applicant be authorized to issue its common stock, at \$60 per share par value, to be sold to the mutual company, in an amount to equal the difference between the estimated depreciated historical cost, as of the date of the transfer, of the domestic properties to be acquired by applicant, as determined by the Commission, and the sum of the afore-mentioned note and balance of consumers' advances for construction; plus \$10,000 working cash, and plus \$33,000 cash to cover the cost of a new well proposed to be drilled, and a new pump proposed to be installed therein.

A public hearing in this matter was held before Examiner Warner on January 29, 1952, in Los Angeles. The record of the proceedings in the matter of Application No. 31393 was made a part of the record of the proceedings in this matter by reference.

A description of the characteristics of applicant's proposed service area together with a description of the sources of water supply, production facilities, and water distribution system facilities is of record in the proceedings of April 4, 1951, and June 6 and 7, 1951, in Application No. 31393. They are summarized in Decision No. 45884. However, for these purposes, the area is generally described as comprising about 5,000 acres of unincorporated territory in Los Angeles County, and is delineated on the map filed at the June 7, 1951, hearing as Exhibit No. 1-A, and described by metes and bounds in Exhibit No. 2-A in Application No. 31393. As of November 30, 1951, domestic water service was being furnished to 3,463 consumers. This number has increased from 263 in 1945 and it is estimated it will increase to 3,700 consumers by the end of 1952. The record shows that about 200 acres of land remain unsubdivided.

Applicant's five sources of water supply will comprise the Fish Canyon gravity flow, and Fish Canyon well with an installed pumping plant capacity of 1,251 gallons per minute, the Los Lomas well with installed capacity of 980 gallons per minute, the Santa Fe well with installed capacity of 1,286 gallons per minute, the Mountain Avenue well with installed capacity of 1,581 gallons per minute, and a new well planned to be added during 1952 to be known as the Buena Vista Avenue well with installed capacity of 3,000 gallons per minute. These sources total estimated installed production capacity of in excess of 8,000 gallons per minute for the domestic system.

Construction by the mutual company, but proposed to be transferred to applicant, of a new reservoir of 1,500,000-gallon capacity costing \$63,551, and of about 11,000 feet of 16-inch transmission main costing \$63,497 was completed during 1951. In addition, during 1951, the mutual company replaced a pump in its Mountain Avenue well with a new one at a net cost of about \$10,000, and added to its water distribution system pipe lines and services.

The record shows that the estimated construction cost of the proposed Buena Vista Avenue well will be approximately \$45,000, including the land and all facilities. In addition, applicant's 1952 construction budget includes the proposed installation of a booster pump at Santa Fe well, and various main extensions and service connections. Applicant's total 1952 budget amounts to \$53,729.

It is evident from the record that applicant's sources of water supply and distribution system installed and proposed to be installed are adequate to serve the area requested to be certificated.

The record shows that applicant's sources of water supply have been tested periodically by Los Angeles County Health Department authorities and have been found to be free of contamination, and have been found to be potable.

Applicant proposes to acquire Los Angeles County franchise rights from the mutual company.

Rates for domestic water service now being charged by the mutual company and applicant's proposed general metered service rates are compared and summarized in the following tabulation:

<u>Quantity Rates:</u>		<u>Per Meter Per Month</u>	
		<u>Present</u>	<u>Proposed</u>
First	800 cu. ft. or less	\$ 1.50	\$ -
Next	2,000 cu. ft. per 100 cu. ft.07	-
Over	2,800 cu. ft. per 100 cu. ft.05	-
First	600 cu. ft. or less	-	1.35
Next	1,400 cu. ft. per 100 cu. ft.	-	.16
Next	3,000 cu. ft. per 100 cu. ft.	-	.10
Over	5,000 cu. ft. per 100 cu. ft.	-	.08

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ -	\$ 1.35
For	3/4-inch meter	-	1.50
For	1-inch meter	-	2.00
For	1 1/2-inch meter	-	3.50
For	2-inch meter	-	5.00
For	3-inch meter	-	10.00
For	4-inch meter	-	15.00
For	6-inch meter	-	20.00

A fire hydrant rate of \$1.50 per hydrant per month is also requested to be established. This rate is now being charged by the mutual company. No flat rate is applied for.

By utilizing the water use table for the year 1950, contained in Exhibit No. 9 in Application No. 31393, it appears that 50.79% of the consumer months were included in the consumption block of 1,300-1,400 cubic feet, or less. This group of consumers' average water bill under the present mutual company's rates was \$1.92 per month; under the proposed rates it would amount to \$2.63, or an increase of 37%. This table also shows that 17.88% of the consumer months were included in the consumption block of 600 cubic feet or less. The monthly rate for 600 cubic feet or less of water usage is now \$1.50, and under the proposed rate it would be \$1.35, or a reduction of \$0.15. The record does not justify the proposed

reduction of the present monthly minimum charge and the minimum amount of water usage allowable under that charge. The record, on the other hand, does not justify a reduction, as requested by City of Hope Medical Center, in the proposed rate of \$0.08 per 100 cu. ft., for usage over 5,000 cu. ft. per month. The filing of a schedule of rates different from those submitted with the application, which it is considered will spread equitably the cost of water service between all sizes of water usage consumption blocks will be authorized by the order herein.

A series of tabulations containing essential data leading to an estimated rate base, estimated net operating earnings, and estimated rate of return for the year 1951, was submitted as Exhibit No. 1 by applicant's engineering witness. A report on the results of applicant's operations for the year 1951 adjusted and for the year 1952 estimated was submitted as Exhibit No. 3 by Commission staff engineering witnesses. The earnings information contained in Exhibits Nos. 1 and 3 is summarized in the following tabulation:

SUMMARY OF EARNINGS
YEAR 1951 ADJUSTED AND YEAR 1952 ESTIMATED AT
PRESENT AND PROPOSED RATES

Item	Year 1951 Adjusted			Yr. 1952 Estimated:	
	Ex. No. 3	Ex. No. 3	Ex. No. 1	Per PUC	Ex. No. 3
Operating Revenues	\$104,290	\$143,540	\$145,414	\$115,420	\$158,560
<u>Operating Expenses</u>					
Source of Water Supply	230	230	200	250	250
Pumping	19,650	19,650	21,140	23,100	23,100
Purification	460	460	180	500	500
Trans. & Dist.	14,330	14,330	13,900	15,700	15,700
Commercial	7,500	7,500	8,530	8,900	8,900
Gen. & Misc.	13,750	13,750	19,230	15,300	15,300
Undistributed Overhead	-	-	(5,504)	-	-
Uncollectibles	100	140	-	120	160
Subtotal	56,020	56,060	57,676	63,870	63,910
Depreciation	22,330	22,330	22,971	26,360	26,360
Taxes	9,690	27,710	28,327	10,150	29,880
Total	88,040	106,100	108,974	100,380	120,150
Net Operating Revenue	16,250	37,440	36,440	15,040	38,410
Rate Base (Depreciated)	525,400	525,400	555,623	646,100	646,100
Rate of Return	3.1%	7.1%	6.6%	2.3%	5.9%

(Red Figure)

The record shows that the revenue estimates for 1952 were based on an estimated increase of about 220 consumers during 1952.

Operating expenses were adjusted to reflect the assumed operation by applicant of the domestic system during 1951 on a normal basis. The staff adjusted the 1952 estimated pumping expenses downward to reflect normal rainfall and gravity flowage in Fish Canyon.

In discussing Exhibit No. 1 applicant's engineering witness stated that he had utilized the mathematical average of beginning-of-year and end-of-year amounts to determine rate base components including average plant, average consumers' advances, average materials and supplies, and average depreciation reserve. This accounts primarily for applicant's greater estimated average rate base for the year 1951 than the staff's. Applicant included no water rights in its rate base, and, likewise, none were included in the rate base submitted by the staff.

With further respect to the rate base, it appears that the donations in aid of construction, deducted by the staff engineering witness, were proprietary donations by Miller and Scott, ranch owners, who installed a water system to serve some residents on their ranch, and later asked the mutual company to take over the water system properties, at no cost, and operate them. In this instance, such donations will not be deducted from fixed capital to determine the rate base, and a rate base of \$658,000 is hereby adopted, which when related to net operating revenue of \$38,000 (after taking into account depreciation on the afore-mentioned donated capital) will result in a rate of return of 5.8% for the year 1952. This is considered to be a fair rate of return in this proceeding.

Applicant's president agreed to adopt the remaining life basis of depreciation and applicant will be authorized by the order herein to set up on its books of account the results of the appraisal

of its fixed capital as shown in Exhibit No. 3, together with net additions and betterments brought up to the date of the acquisition authorized herein, provided, however, that the related depreciation reserve requirement and future depreciation annuity will be recorded and computed according to the remaining life principle.

With respect to its request to issue capital stock, applicant will be authorized to issue 6,750^{2/} shares of its common stock having a par value of \$60 per share with an aggregate par value of \$405,000 to cover the following:

<u>Item</u>	<u>Amount</u>
Total Plant as of 12-31-51.....	\$ 878,159
Deduct:	
(1) Depreciation Reserve as of 12-31-51.....	152,040
(2) Note to Pacific Mutual Life Insurance Co.	290,000
(3) Consumers' advances for construction as of 12-31-51..	<u>114,447</u>
Total deductions	556,487
Add:	
(1) Working Cash	6,000
(2) Materials and supplies as of 12-31-51	23,898
(3) 1952 Budget, including well, pump, etc., per Exh.No.3	<u>53,700</u>
Total additions	83,598
Net amount to be covered by stock issue	405,270
Use	405,000

The record shows that applicant desires to assume the liability for refund of the unrefunded balances of consumers' advances for construction and to execute a new loan agreement and mortgage with Pacific Mutual Life Insurance Company, as lender, with respect to the presently outstanding indebtedness of \$290,000. The proposed new note will bear interest at the rate of 3% per annum, payable semi-annually, will mature on December 1, 1975, and will be callable at 103 during the first year with one-eighth of a point reduction each year thereafter to par.

It clearly appears that the issue of the proposed new note and the issue of the shares of stock, as contemplated, are required

^{2/} By its Articles of Incorporation, applicant's total capital stock authorization is 10,000 shares of common stock of par value of \$60 per share and of an aggregate par value of \$600,000.

to enable applicant to finance the acquisition of the water properties and to meet its immediate capital requirements.

No protest to the granting of the certificate was entered by any party but City of Hope Medical Center protested the rate of \$0.08 per 100 cu. ft. of water usage in the last block of the proposed rate schedule. This protest has been considered by the Commission as hereinbefore noted.

The Commission has considered the application of Duarte Domestic Water Company for a certificate of public convenience and necessity to construct and operate a public utility water system in Los Angeles County and is of the opinion that it should be granted, subject to the following provision of law:

That 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.

The action taken herein shall not be construed to be a finding of the value of the property herein described.

O R D E R

Duarte Domestic Water Company, a corporation, having applied for a certificate, of public convenience and necessity, for the establishment of rates, for permission to issue stock, for acquisition of properties, for assumption of liabilities, and for the execution of a loan agreement and mortgage, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY FOUND AS A FACT that public convenience and necessity require the construction and operation of a public utility

water system in unincorporated territory comprising about 5,000 acres more or less in and about Duarte, Los Angeles County, as delineated on the map filed as Exhibit No. 1-A and as described by metes and bounds in Exhibit No. 2-A, both in Application No. 31393; therefore

IT IS HEREBY ORDERED as follows:

1. That a certificate of public convenience and necessity be and it is granted to Duarte Domestic Water Company to construct and operate a public utility water system for the production, distribution and sale of water within the territory hereinbefore described.
2. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with the Commission's General Order No. 96, a schedule of rates shown in Exhibit A attached hereto, and on not less than five (5) days' notice to the Commission and the public, to make such rates effective for services rendered on and after April 1, 1952.
3. Applicant shall file, within forty (40) days after the effective date of this order, four copies of a comprehensive map, drawn to an indicated scale of not less than 600 feet to the inch, delineating by appropriate markings the various tracts of land and territory served, and the location of various properties of applicant.
4. Applicant shall file, coincident with the rate filing ordered herein, four copies of rules and regulations and tariff service area map acceptable to the Commission and in accordance with the requirements of General Order No. 96.
5. Applicant is authorized to set up on its books of account the results of the appraisal of its properties as shown in Exhibit No. 3, together with net additions and betterments brought up to the date of the acquisition authorized herein, provided, however, that it shall set up the depreciation reserve requirement and shall compute the depreciation annuity on such properties and future properties according to the remaining life principle of depreciation.
6. Applicant shall review annually the accruals to its depreciation reserve which shall be based upon spreading the original cost of the plant, less estimated net salvage, and less depreciation reserve, over the estimated remaining life of the property, and the results of these reviews shall be submitted annually to the Commission.

- 7. Duarte Domestic Water Company is authorized, for the purposes indicated herein, to assume the payment of consumers' advances for construction, to issue a note to Pacific Mutual Life Insurance Company in the principal amount of not exceeding \$290,000, to execute a loan agreement and a mortgage on its water properties to secure the payment of said note, and to issue 6,750 shares of stock, of the aggregate par value of \$405,000, after the effective dates hereof and on or before December 31, 1952, the Commission being of the opinion that the money, property or labor to be procured or paid for through the issue of said note and stock is reasonably required by Duarte Domestic Water Company for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.
- 8. The authority herein granted to issue a note will become effective when applicant has paid the fee prescribed by Section 1904 of the Public Utilities Code, which fee is two hundred ninety dollars (\$290.00). In other respects the authority herein granted will become effective twenty (20) days after the date hereof.
- 9. Applicant shall file with the Commission a report, or reports, as required by the Commission's General Order No. 24-A, which order in so far as applicable is made a part of this order.

Dated at San Angeles, California, this 4th day of March, 1952.

[Signature]

 President.
Justice F. Quinn
Harold H. Hill

 Commissioners.

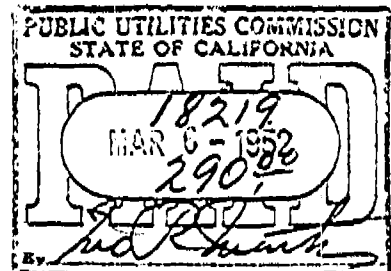


EXHIBIT A

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all measured domestic and commercial water service.

TERRITORY

Throughout the authorized service area in unincorporated territory comprising 5,000 acres more or less in and about Duarte, Los Angeles County.

RATES

Per Meter
Per Month

Quantity Rates:

First	800 cu. ft. or less.....	\$ 1.55
Next	1,700 cu. ft. per 100 cu. ft.....	.15
Next	7,500 cu. ft. per 100 cu. ft.....	.10
Over	10,000 cu. ft. per 100 cu. ft.....	.08

Minimum Charge:

For	5/8 x 3/4-inch meter.....	\$ 1.55
For	3/4-inch meter.....	2.00
For	1-inch meter.....	3.00
For	1 1/2-inch meter.....	5.00
For	2-inch meter.....	7.00
For	3-inch meter.....	10.00
For	4-inch meter.....	15.00
For	6-inch meter.....	25.00

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