

ORIGINALDecision No. 50672

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CORDOVA WATER COMPANY)
 for a certificate of public conven-)
 ience and necessity to purchase,)
 construct and operate a water system) Application No. 35640
 in the County of Sacramento, California,)
 to establish rates and for a permit to)
 issue stock.)

Robert E. Hatch, for applicant.
W. B. Stradley and L. L. Thormod, for the
 Commission staff.

O P I N I O NIntroductory

Cordova Water Company, a California corporation, by application filed July 28, 1954, seeks authority to acquire from Rancho Cordova Corporation and thereafter operate, as a public utility, a water system to serve Rancho Cordova Subdivisions, Units Nos. 1, 2, 3, 6 and 7, located east of the City of Sacramento between the American River and U. S. Highway 50 (Folsom Boulevard). Authorization is also sought to issue and sell 300 shares of the company's no par value capital stock for cash, at the rate of \$10 per share, in the proportion of 100 shares each to Roland S. Federspiel, Robert E. Hatch and Allan T. Olson, principals of Rancho Cordova Corporation, the developer of the properties.

Public Hearing

This application was submitted for decision following a public hearing held at Sacramento on August 18, 1954, before Examiner John M. Gregory. No opposition was manifested at the hearing.

Description of Properties and Method of Acquisition

The system, which has not yet been completed, will ultimately be supplied by five wells formerly used to irrigate properties of the Rancho Cordova Corporation. The wells will be interconnected through the distribution system, which will consist of asbestos cement pipe ranging in size from 8 to 4 inches. Homes in Unit No. 1 are now being served from a well equipped with a 15-hp pump which supplies water at a pressure between 40 and 50 pounds per square inch.

The water system in Rancho Cordova Units Nos. 1, 2, 3, 6 and 7, which will eventually serve 485 lots, will be purchased from Rancho Cordova Corporation for \$93,255.75. The purchase price of the portion of the system presently completed is \$20,656.65.

The original agreement for sale of the properties to the utility, submitted at the hearing, is in form a conditional sales contract payable out of revenues at the rate of \$133.11 monthly, with interest at 6% per annum computed monthly on deferred balances. Applicant, subsequent to the hearing, submitted an amended proposal calling for outright sale to the company of the facilities to be used in Unit No. 1 for the sum of \$20,656.65, payable at the rate of 35% of the gross monthly revenue of buyer from sale of water in that unit, the monthly payments to be applied first to interest on the deferred balance at the rate of 6% per annum computed monthly. In effect, it is proposed, under either method of financing, that the cost of facilities for Unit No. 1 be borne out of revenues from the sale of water in that unit. Facilities for additional units, estimated to cost \$72,599.10, would be constructed by Rancho Cordova

Corporation and turned over to the utility at cost, or would be built by the utility itself.⁽¹⁾

Neither method of financing construction of necessary facilities proposed by applicant appears to us to be economically feasible. Aside from \$3,000 in working cash to be derived from the sale of 300 shares of the company's capital stock, the cost of facilities to serve Unit No. 1, under the original plan, would be borne by the consumers and paid only out of revenue. With an estimated gross revenue, as appears of record, of \$4,380 from that unit for a full year's initial operation, and estimated expenses, including taxes and depreciation, of \$4,362.27, a net operating profit of only \$17.73 is indicated. Payment of 35% of the gross revenue, under the amended proposal and assuming the same conditions, would result in an annual net operating loss of about \$1,500.

Proposed Rates

Applicant proposes to charge for water service a basic flat rate for a two-bedroom residence of \$3 per month and a basic meter rate for a 5/8 x 3/4-inch meter of \$2 per month. The latter rate will allow up to 800 cubic feet of water. The rates are comparable with those of other water systems of similar nature in the general vicinity of applicant's proposed operation.

Conclusions

This application, with respect to proposed methods of financing the cost of installation of water facilities, presents unusual features. While it is true that the Rancho Cordova

(1) The staff was advised informally by one of applicant's officials, subsequent to the hearing, that in addition to supplying water to homes in Unit No. 1, the system is also now connected to 17 houses in Unit No. 6 and that construction is ready to proceed in Unit No. 2. The situation was described as critical since it appears that water is not otherwise available.

Corporation, which owns the land, and the utility company are separate corporate persons, yet both are controlled by the same interests. The application, as originally conceived, and the evidence of record make it plain that the developers of this project are primarily concerned with the sale of homes rather than with operation of a public utility water system and have attempted to limit their investment in the utility accordingly. This poses a problem in regulation for the Commission, since our concern is limited to the utility operation alone and to enforcement of standards in the field of finance and operation that are fair and reasonable both to the owners of a utility and to its patrons. The problem is likely to become serious, if it is not already so, with the rapid development of housing tracts due to the unprecedented increase in the state's population, of which we take official notice.

We should be disposed, were it not for the uncontradicted evidence of record that no nearby supply of water is available to residents of this tract, to deny this application with prejudice for lack of a showing of a feasible method for financing construction of the necessary facilities. Such action, however, would not solve the practical problem of what to do with this system which already is serving water, allegedly without charge, to residents of Unit No. 1.

Although we have power to issue certificates of public convenience and necessity, to authorize execution of evidences of indebtedness and to attach reasonable conditions to such grants and authorizations when appropriate, we should be slow to exercise that power when invoked by an applicant which when clothed with it will commence life under such a heavy financial handicap as is indicated by this record. Moreover, it was not until the hearing that

applicant revealed the form of agreement by which it expected to acquire water facilities and then only for Unit No. 1. Likewise, the form of contract submitted after the hearing applies only to that unit. The financial showing was wholly inadequate.

We are of the opinion that any certificate issued herein should be limited to Units Nos. 1, 2 and 6 of Rancho Cordova Subdivisions. The showing made by applicant, however, does not justify issuance of a certificate at this time. If applicant, by supplemental application herein, is able to present a plan satisfactory to the Commission for acquisition of necessary water facilities, the Commission will reconsider its action. Meanwhile, the present application will be denied without prejudice.

O R D E R

Public hearing having been held herein, the Commission now being fully advised and basing its order upon the findings and conclusions contained in the foregoing opinion,

IT IS ORDERED that the application of Cordova Water Company, filed herein July 28, 1954, be and it is hereby denied without prejudice.

In order to allow applicant to proceed without undue delay, this order shall be effective on the date hereof.

Dated at San Francisco, California, this 19th day of OCTOBER, 1954.

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