

ORIGINAL

Decision No. 51133

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of NORTH LOS ALTOS WATER CO. for (1) an order authorizing the sale, mortgage, and transfer of a water system and (2) an order authorizing the issuance of stock — pursuant to Sections 51 and 52 of the Public Utilities Act.

Application No. 35468
(Amended)

In the Matter of the Application of NORTH LOS ALTOS WATER CO. for (1) a certificate of public convenience and necessity, (2) an order fixing rates and (3) an order authorizing the issuance of notes — pursuant to Sections 32, 50, and 52 of the Public Utilities Act.

Application No. 35469
(Amended)

Leon A. Carley and William Stava, for applicant.
John Donovan and E. Ronald Foster, for the
Commission staff.
C. G. Ferguson, for California Water Service
Company, interested party.

O P I N I O N

Nature of Proceeding

By its applications as amended, ^{1/} North Los Altos Water Co., a California corporation, seeks a certificate of public

^{1/} Application No. 35468 filed May 27, 1954, sought approval of the transfer of Spinks Water System and authorization to execute a chattel mortgage. During the hearing it was determined that the transfer had been completed and the purchase price of \$60,000 paid in full. The application as filed contained a request to issue 4,500 shares of common stock as part payment for the properties to be acquired by the corporation. At the hearing applicant requested that the authority to issue common stock be limited to 3,140 shares. The application was accordingly amended.

Application No. 35469 filed May 27, 1954, requested authority to execute a note in the amount of \$150,000 covering a contemplated loan in said amount. At the hearing applicant stated that the loan was still being negotiated and the requested authority would be covered by a subsequent filing. The application was accordingly amended. On December 7, 1954, applicant filed an amendment for authority to establish increased rates.

convenience and necessity to operate a public utility water system at Los Altos, Santa Clara County; authority to issue 3,140 shares of common stock having a par value of \$25 per share and an aggregate par value of \$78,500 in part payment for the properties to be acquired and authority to file rates higher than presently being charged.

Public Hearing

A public hearing was held before Examiner T. E. Daly on January 14, 1955, at San Jose and the matters were submitted. The matters were consolidated for the purpose of hearing and decision. The only protests related to rates and were limited to a consumer and to representatives of the Los Altos Fire District. The consumer was of the opinion that the proposed increase in rates would place an unreasonable financial burden upon himself and his neighbors.

A Fire Commissioner and the Chief of the Los Altos Fire District testified that applicant is presently charging higher hydrant rates than any other utility in the immediate area and that the water system does not offer adequate facilities for fire protection. Users of neighboring water utilities are assertedly paying 30 per cent less in fire insurance rates because of better facilities.

Past Operations

Operation of the system was commenced in 1924 by Charles H. Spinks as the result of a real-estate development. It was known as the Spinks Water System and was operated without having acquired a certificate of public convenience and necessity. In 1949 the water system was sold to Thad C. Binkley and his wife, Mildred H. Binkley, for a cash consideration of \$60,000. The new owners subsequently caused the incorporation of North Los Altos Water Co., the applicant herein. Since 1949 the system has undergone

substantial reconstruction and improvements. Plant additions have been installed by Associated Engineers, Inc., and Pioneer Supply Company, organizations which are affiliated with the water system through the common and sole ownership of Thad C. Binkley.

Proposed Area

The service area is situated within the northwesterly portion of the Town of Los Altos and in an unincorporated territory adjacent thereto in Santa Clara County. A map designated as Exhibit 4 sets forth the proposed boundaries, except for the isolated Deerfield Avenue area hereinafter referred to. Uncertainties arose as to the southern boundary wherein it conflicted with the service area of California Water Service Company. These were resolved between the parties and a map designated as Exhibit 5 sets forth the southern boundary to which applicant and a representative of California Water Service Company mutually agreed.

Eleven customers living on or near Deerfield Avenue, which is adjacent to territory served by California Water Service Company, have been served by applicant and its predecessors for many years. Applicant serves these customers with water purchased from the California Water Service Company.

Water System

Water is supplied from seven deep wells and the system is fully automatic. Applicant operates five pumping stations, each being equipped with a surface tank in which the water level is controlled by float switches operating the deep-well pumps.

The system consists of approximately 99,300 feet of mains varying from 2 to 8 inches in diameter. As of December 31, 1954, service was supplied to approximately 1,200 users and 44 fire hydrants.

Other Available Water Supply

It appears that there is no other public water supply available to serve the hereinabove designated area.

Financing

A pro forma balance sheet as of January 1, 1954, introduced by applicant as Exhibit 3 in this proceeding, shows the assets, liabilities and net worth of the present owners of the water system, as of that date, to be as follows:

<u>Assets</u>		
Fixed Capital	\$342,644.64	
Less Depreciation Reserve	60,734.00	\$281,910.64
Cash and Deposits		5,861.45
Accounts Receivable--Consumers		2,782.58
Materials and Supplies		207.14
Prepaid Expenses--Insurance		82.84
Construction Work in Progress		62.50
		<u>62.50</u>
	Total Assets	<u>\$290,907.15</u>
<u>Liabilities</u>		
Capital		\$ 78,513.14
Notes Payable--John R. Lindsay	\$ 500.00	
T. C. Binkley	100,000.00	100,500.00
Accounts Payable		57,055.09
Taxes Accrued		259.72
Hydrant Rentals Billed in Advance		180.00
Consumer Advances for Construction		50,899.20
Donations in Aid of Construction		3,500.00
		<u>3,500.00</u>
	Total Liabilities	<u>\$290,907.15</u>

The \$100,000 note payable to T. C. Binkley is a demand note calling for interest at the rate of 5 per cent per annum. The \$57,055.09 of accounts payable includes \$54,843.80 due Associated Engineers, Inc., and Pioneer Supply Co. During the course of these proceedings applicant did not offer a plan to refinance these obligations and it is proposed that they will become liabilities of the corporation.

Applicant corporation proposes to issue 3,140 shares of its common stock of the aggregate par value of \$78,500 to Thad C. and

Mildred H. Binkley for their equity in the water system, which equity is reported as \$78,513.14 in the January 1, 1954, pro forma balance sheet.

Applicant advised that additional financing is contemplated for the near future through the issue of a long-term note in the principal amount of \$150,000. The proceeds from such financing would be used to liquidate the open account indebtedness to affiliated companies, to finance future construction requirements and to refinance in part the note payable to T. C. Binkley.

Present and Proposed Rates

The present minimum charge is \$1.50 per month for 600 cubic feet or less of water supplied through a 5/8- by 3/4-inch meter. Applicant proposes increasing the minimum charge to \$2 per month for 500 cubic feet or less of water. Typical billings under applicant's present and proposed rates and under those rates hereinafter authorized are as follows:

Monthly Consumption in Cubic Feet	Charge per Month		
	Present Rates	Proposed Rates	Authorized Rates: Appendix A
0 - 500	\$ 1.50	\$ 2.00	\$ 1.90
600	1.50	2.25	1.90
800	2.00	2.75	2.40
1,000	2.50	3.25	2.90
1,500	3.75	4.50	4.15
2,000	4.80	5.75	5.40
3,000	6.80	8.25	7.90
5,000	10.60	12.25	11.90
10,000	18.10	22.25	21.90
20,000	33.10	42.25	41.90

The present charges for service to public fire hydrants range from \$1.75 to \$3.50 per hydrant per month, depending upon the size and type of hydrant and the size of main to which it is attached. Applicant proposes monthly charges per hydrant of \$2.00 and \$2.25 respectively for 2½- and 3-inch wharf-type hydrants and

\$3.00 and \$3.50 respectively for 4- and 6-inch standard hydrants, without regard to the size of the water main from which service is supplied.

Results of Operations

Independent studies were prepared by applicant and the staff and received in evidence as Exhibits 3 and 6 respectively.

The staff's study covered the operations for the year 1954. The revenue and expense figures for that year are estimates based upon a review of the previous three years. Adjustments were made which allowed for abnormal and unusual situations. They included such items as nonrecurring expenses, changed service and operating conditions. Wages and salaries were placed upon a current level. Certain nonoperative property, which applicant included in its rate base, was excluded in the staff's exhibit.

Different methods were employed in determining the rate base. The staff used an average between the beginning and the end of the year. Applicant used the year-end rate base although it used a yearly average for the purpose of determining the number of consumers and the water consumption per consumer. Applicant was of the opinion that while the average rate base is the reasonable one to apply in the case of an established utility where additions and betterments are a nominal percentage of that capital, it should not be applied in this instance. It was indicated that applicant increased its capital 32 per cent by betterments in 1951, 30 per cent in 1952, 23 per cent in 1953 and 12 per cent in 1954. Applicant expects to spend approximately \$32,500 for capital expenditures during 1955.

Comparison of Applicant's and Staff's Studies1954

Item	Staff		Applicant	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Revenue	\$ 60,890	\$ 74,310	\$ 58,470	\$ 71,333
Expense*	51,060	56,340	50,695	54,914
Net Revenue	9,830	17,970	7,775	16,419
Rate Base (Depreciated)	235,000	235,000	252,780	252,780
Rate of Return	4.18%	7.65%	3.07%	6.50%

* Federal Income Tax at 52 per cent.

Conclusion and Findings

After consideration the Commission is of the opinion that the staff's study presents a more complete analysis and therefore will be adopted.

Because of applicant's substantial construction program its rate of return has gradually decreased over the past few years. It dropped from 4.84 per cent in 1953 to 4.18 per cent in 1954. It is reasonable to expect that it will decline another .6 per cent in 1955.

The proposed increase in hydrant rates, which would result in an annual increase of approximately \$200, has not been justified and therefore will not be authorized.

Attached hereto as Appendix A (by reference made a part hereof) are rates which are designed to render a rate of return of 6.8 per cent based upon the results shown in Exhibit No. 6 for the year 1954. Taking into consideration the anticipated decline in return due to capital additions for improvements and growth and the disallowed hydrant rates, applicant should realize a rate of return of 6.2 per cent for the year 1955. Based upon the evidence of record the Commission hereby finds said rates to be just and reasonable.

During the course of the hearing it was ascertained that on October 14, 1952, Ordinance No. 650 was passed by the Board of Supervisors of the County of Santa Clara granting to applicant a franchise to construct, operate and maintain a water system under, upon and over the public streets and roads of said County. Applicant is hereby informed that application should be made to this Commission for a certificate of public convenience and necessity to exercise the rights, privileges and franchise granted by Ordinance No. 650 (Sec. 1002 Public Utilities Code).

Applicant should use the depreciation accrual rates shown in Table 7-A of Exhibit 6 in this proceeding until such time as major changes in plant composition occur or a future review indicates that such accrual rates are inappropriate.

We conclude from the evidence of record that applicant should be granted the requested certificate and that it should be authorized to issue the shares of stock for the purposes hereinabove mentioned.

The certificate of public convenience and necessity issued herein is 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.

O R D E R

The above-entitled applications having been considered, a public hearing having been held, the matters having been submitted and now being ready for decision,

IT IS HEREBY FOUND AS A FACT that public convenience and necessity require and will require the operation of a public utility water system by applicant, North Los Altos Water Co., in the area delineated on map designated Exhibit 4, as amended by Exhibit 5, in this proceeding and in the small isolated area in the vicinity of Deerfield Avenue; therefore,

IT IS HEREBY ORDERED:

1. That a certificate of public convenience and necessity be and it is hereby granted to North Los Altos Water Co., a corporation, to operate a public utility water system for the distribution and sale of water within the territory hereinabove described.

2. That applicant is authorized to file after the effective date of this order the rates set forth in Appendix A attached to this order, together with rules and a tariff service area map acceptable to this Commission and in accordance with the requirements of General Order No. 96. Such rates, rules and tariff service area map shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

3. That applicant shall file, within forty days after the effective date of this order, four copies of a comprehensive map, drawn to an indicated scale not smaller than 500 feet to the inch, delineating by appropriate markings the various tracts of land and territory served; the principal water production, storage and distribution facilities; and the location of the various properties of applicant.

4. That applicant shall determine future accruals for depreciation by dividing the original cost of plant less estimated future net salvage less depreciation reserve by the estimated

remaining life of the plant; applicant shall review the accruals when major changes in plant composition occur and for each plant account at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.

5. That applicant shall set up on its books the plant accounts and the depreciation reserve as of December 31, 1953, substantially as shown in Table 6-A of Exhibit 6.

6. That applicant, after the effective date hereof and on or before July 1, 1955, may issue and sell, at not less than \$25 per share, 3,140 shares of its capital stock for the purposes set forth in the foregoing opinion, it being the opinion of the Commission that the money, property or labor to be procured or paid for by the issuance of such stock is reasonably required by North Los Altos Water Co., for the purposes herein stated, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

7. That applicant shall file with the Commission monthly reports as required by this Commission's General Order No. 24-A, which order, in so far as applicable, is made a part of this order.

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

Dated at San Francisco, California, this 23rd day of FEBRUARY, 1955.

[Signature]
President
[Signature]
[Signature]

Commissioners

APPENDIX A
Page 1 of 2

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The northern portion of the City of Los Altos and adjacent unincorporated territory, Santa Clara County.

RATES

	<u>Per Meter per Month</u>
Quantity Rates:	
First 600 cu.ft. or less	\$1.90
Next 2,400 cu.ft., per 100 cu.ft.....	.25
Next 20,000 cu.ft., per 100 cu.ft.....	.20
Over 23,000 cu.ft., per 100 cu.ft.....	.15
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 1.90
For 3/4-inch meter	2.75
For 1-inch meter	4.00
For 1-1/2-inch meter	6.00
For 2-inch meter	10.00
For 3-inch meter	20.00

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

APPENDIX A
Page 2 of 2

Schedule No. 2

PUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

Applicable to all public fire hydrant service rendered to municipalities, duly organized or incorporated fire districts, or other political subdivisions.

TERRITORY

The northern portion of the City of Los Altos and adjacent unincorporated territory, Santa Clara County.

RATES

Type of Hydrant	Size of Connection	Per Hydrant per Month		
		Diameter of Main Supplying Hydrant		
		Smaller than 4-Inch	4-Inch and Less than 6-Inch	6-Inch and Larger
Wharfhead	2½-inch	\$1.50	\$1.75	\$2.00
Wharfhead	3-inch	1.75	2.00	2.25
Standard	4-inch	-	2.50	3.00
Standard	6-inch	-	3.00	3.50

SPECIAL CONDITIONS

1. Fire hydrants will be attached to the utility's distribution mains for public fire protection only upon receipt of proper resolution passed by the local fire protection agency. Said resolution must designate the type of hydrant, size of connection and specific location at which each hydrant is to be installed.

2. The cost of furnishing, installing and maintaining the hydrants will be borne by the utility.

3. The above rates include use of water for fire fighting purposes and scheduled fire drills only. Quantities of water delivered through fire hydrants for any other purpose will be estimated or measured and charges will be made at the monthly quantity rates under the General Metered Service schedule.

4. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.