

ORIGINALDecision No. 52010

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of WOODSIDE OAKS WATER)
 COMPANY, a California corporation,)
 for a certificate of public con-)
 venience and necessity; to purchase,)
 construct and operate a water system)
 in the County of San Mateo, State of)
 California; to establish rates; and)
 for a permit to issue stock.)

Application No. 36997

In the Matter of the Application of)
 WOODSIDE-OAKS WATER COMPANY for)
 permit to issue stock.)

Application No. 37053

Marcel P. Biscay, T. E. Burke and Howard P. Wenrick, for applicant;
C. G. Ferguson and A. L. Stolp, for California Water Service Company, interested party;
W. B. Stradley and John F. Donovan, for the Commission staff.

O P I N I O NNature of Proceeding

By Application No. 36997, as above entitled, filed May 31, 1955, Woodside Oaks Water Company, a California corporation, seeks an order of this Commission granting a certificate that public convenience and necessity require or will require that it provide public utility water service to contiguous unincorporated areas in San Mateo County known as Woodside Oaks Tract 696, Woodside Oaks No. 2 Tract 714 and a parcel of land known as Lands of Pennington. The establishment of rates for service and authority to issue stock is also sought.

By Application No. 37053, as above entitled, filed June 21, 1955, applicant seeks authority to issue stock in order to obtain cash and to provide for reimbursement for organization expenditures. At the hearing in these matters applicant requested that this application be dismissed.

Public Hearing

Public hearing in the matters was held before Examiner F. Everett Emerson, on August 4, 1955, at Redwood City. As above noted, applicant asked dismissal of Application No. 37053 at the hearing.

The Applicant

Applicant was incorporated under California law on August 18, 1954, with an authorized capital stock of \$300,000. Its initial purpose is to provide water service to residential subdivisions, in the Woodside area of San Mateo County, being developed by Peninsula Development Company. Applicant's officers are also officers of the development company. The development company purports to be financing applicant to the extent of \$10,000 in cash plus the costs of organizing applicant. Applicant now has no employees and does not contemplate having any full-time employees during the first several years of its operations. It intends to rely upon the development company for general office, bookkeeping, accounting and customers' service help, and to utilize, either on a time basis or under contract, employees or subcontractors of the development company for upkeep and repairs to the water system and the meeting of customers' needs.

Development of the Area

The general area of operations is on hilly terrain in the vicinity of Tripp Road and Kings Mountain Road about 5½ miles west of Redwood City. In this general area, Peninsula Development Company owns approximately 800 acres of land which it contemplates developing into about 400 homesites. The area for which applicant seeks certification lies between elevations of 440 and 940 feet and includes the first two tract developments of 117 lots on Peninsula Development

Company land and one development of 15 lots on property known as the Lands of Pennington. Of these latter, seven lots may be supplied water service either by applicant, from Partition Road, or by California Water Service Company, from Tripp Road, depending upon the actual physical development of the sites by the future home owner. Applicant proposes, and California Water Service Company is in agreement therewith, that these seven lots be covered by a nonexclusive certificate and that the water company which can best serve them do so. Applicant anticipates that it will serve 100 lots, out of the total of 125, during the next 12-month period.

Description of the Water System

Peninsula Development Company is now supplied water service by a "master meter" located at the end of an 8-inch main of California Water Service Company on Tripp Road about 1,200 feet west of Redwood City-La Honda Road.

If the development company were to render water service for compensation it would become a public utility. It, therefore, created the applicant herein to provide the water service and has installed a distribution system, consisting of 8-, 6-, 4- and 2-inch pipes so located as to provide service to all of the above-described lots. Because of the nature of the terrain, two booster pump stations (one with two 20-hp and one with one 20-hp pumps) and two 100,000-gallon ground-level storage tanks are located within the tracts. A third tank, of 100,000 gallons capacity, is on adjacent land which will be developed at a later date.

Applicant's Acquisition of the Water System

Peninsula Development Company is to install the complete water system. Applicant proposes to acquire a portion of the system by issuing stock to the development company in the par value

amount of \$89,400 made up of estimated costs and working cash as follows:

Organization Expense	\$ 1,100
Franchises	400
Land and Rights of Way	4,500
Pumping Plant Buildings	4,400
Pumping Plant Equipment	15,000
Storage Tanks (3)	54,000
Cash	10,000
Total	<u>89,400</u>

In addition, applicant proposes to acquire the balance of the physical system under an agreement to pay the development company the actual costs thereof by means of payments of 22 per cent of the revenues derived from the system over a period of 20 years.^{1/} The estimated costs of these facilities are as follows:

Transmission and Distribution Mains	\$76,042
Services	5,260
Fire Hydrants	<u>6,480</u>
Total	<u>87,782</u>

Applicant's Rate Proposal and Revenues

Applicant proposes a service charge type of meter rate. Charges for water used would be added to the service charge at quantity rates identical to the first two quantity block rates charged by the Bear Gulch District of California Water Service Company from whom applicant would purchase its water. The proposed rates are as follows:

Monthly Service Charge:

For 5/8 x 3/4-inch meter	\$ 4.00
For 3/4-inch meter	5.00
For 1-inch meter	7.00
For 1 1/2-inch meter	12.00
For 2-inch meter	25.00
For 3-inch meter	50.00
For 4-inch meter	100.00

Monthly Quantity Rates: (Added to Service Charge):

First 500 cu.ft., per 100 cu.ft.	\$0.37
Over 500 cu.ft., per 100 cu.ft.	.325

^{1/} Such proposal is taken from the provisions of Appendix B (Section C, Subsection 2b) attached to the Commission's Decision No. 50580, in Case No. 5501 and related applications, issued September 28, 1954. Such provision is part of a "Main Extension" rule.

The lots to be served range between one and four acres in size and it is intended that each lot be served by means of a 1-inch service connection. Applicant's estimate of annual gross revenues is based upon an assumed eighty 5/8-inch meters and twenty 1-inch meters and totals \$10,794. The proposed water rates if authorized, would be among the highest, if indeed not actually the highest, public utility rates in California.

Estimated Operating Expenses

Applicant's estimate of annual operating expenses totals \$9,624 distributed as follows:

Cost of Purchased Water	\$3,900
Cost of Purchased Power	900
Pumping	300
Distribution System	200
Customer Accounting	150
General Expenses	250
Taxes	500
Depreciation	3,424
Total	9,624

The above-tabulated expenses, according to the evidence, are predicated upon applicant's having no employees of its own and may be representative of applicant's operating expenses only so long as the development company makes its office, employees, supplies, construction forces and operating labor available to applicant. The length of time during which such situation may prevail is problematical. It is reasonable to assume, however that applicant's operating expenses may be considerably in excess of its estimate in a relatively short time.

Summary of Earnings

Relating the estimates of revenues and expenses before us in this record indicates the following:

Operating Revenues	\$10,794
Operating Expenses	
Before taxes and depreciation	5,700
Taxes	500
Depreciation	3,424
Total Operating Expenses	9,624
Net Revenues	1,170

The annual payment on the principal of the indebtedness, on the basis of the above revenue estimate would be 22 per cent of \$10,794 or \$2,375. It should be obvious that net revenues will be insufficient to meet such payments. With respect to such situation, applicant's secretary testified that depreciation funds would be used as the source of monies for making the 22 per cent of gross revenue payment to the development company.

Although applicant is not presently seeking certification for the entire area owned or controlled by the development company, it contemplates ultimately serving such area in the normal course of its utility operations. The record in this proceeding contains an estimate of the capital cost to serve the entire 800 acres and their 400 homesites owned by the development company which, although not precise, indicates an ultimate cost of about \$357,000. Applicant plans to finance the acquisition of future expansion through the same method of paying 22 per cent of gross revenues for such facilities. If the complete subdivision of the area is accomplished, annual refunds would approximate \$10,000.

Conclusion

The financial showing in this record is wholly inadequate and, in our opinion, contrary to the public interest. Applicant is wholly dependent upon its parent and could not hope adequately to operate the system without it. Indeed, one pump failure or one major repair could require a greater operating expense expenditure than the total of applicant's estimated annual operating expenses of \$500 assignable to maintenance and operation of the pumps and the distribution system. The rental of office space and the hiring of even

part-time labor to operate the system independently would surely exceed the \$400 contemplated by applicant as the total annual expenses assignable to customers' accounting and collecting and general expenses. In short, the utility company, set up by the Peninsula Development Company to supply the water which will enable the developer to sell its real estate, cannot survive alone.

Applicant's proposal to acquire only a portion of the system through issuance of its stock and to acquire the balance under a revenue refund plan is at best a misapplication of the "Main Extension" rule. Main extension rules, as the very title should suggest, are designed for and applicable to the extension of mains from existing operative systems. They presuppose a going utility operation which is merely to be extended or enlarged. They are not applicable to the acquisition of whole new systems or portions thereof. The plan of acquisition herein is most inappropriate, and, in our opinion, adverse to the public interest.

With the ultimate development of the over-all service area, the adverse situation will be intensified. The preponderance of subdivider's advances in the capital structure will require a correspondingly heavier cash outlay for repayment and it is doubtful, on the basis of the record now before us, if applicant is, or will be, sufficiently financed to satisfy its public utility obligations.

We conclude from the evidence that the present application should be denied. If applicant, by supplemental application herein, is able to present a plan satisfactory to the Commission for the acquisition of the water facilities and can satisfactorily show that its operations may have some reasonable prospect of financial survival and perpetuity of service to the public, the Commission will reconsider its action. The present application, therefore, will be denied.

without prejudice. Applicant should look towards an adequate capital structure to finance the ultimate development.

O R D E R

Public hearing having been held, the matter having been submitted and the Commission basing its order upon the findings and conclusions contained in the foregoing opinion,

IT IS ORDERED that the application of Woodside Oaks Water Company, filed herein as Application No. 36997, be and it is hereby denied without prejudice.

IT IS FURTHER ORDERED that Application No. 37053 be and it is hereby dismissed.

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

Dated at San Francisco, California, this 4th day of October, 1955.

John E. Mitchell
President

Justin F. Graham

Raulo Antero

Matthew Kelly

B. Hardy
Commissioners