

Decision No. 52498

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
ROSEMONT WATER COMPANY, a corpora-)
tion, for:)

- (1) A certificate of public convenience and necessity to operate a water system in the Manlove Area, Sacramento County;
- (2) An order establishing rates;
- (3) An order approving contract for purchase of water system;
- (4) An order authorizing issuance of stock.

Application No. 37312
(as amended)

Bacigalupi, Elkus and Salinger by Claude N. Rosenberg,
for applicant.
John F. Donovan and Robert C. Moeck, for the
Commission staff.

O P I N I O N

Nature of Proceeding

Rosemont Water Company, a California corporation, by an application filed September 21, 1955, as amended on November 30, 1955, and as further amended on December 24, 1955, seeks an order of this Commission granting: (1) a certificate that public convenience and necessity require that it provide public utility water service in an unincorporated area east of Sacramento, California, generally known as Rancho Rinconada; (2) a certificate of public convenience and necessity to exercise the rights and privileges of a franchise granted applicant by the County of Sacramento; (3) authority to issue stock; and (4) authority to establish rates for water service.

Public Hearing

Public hearing in the matter was held before Examiner F. Everett Emerson on December 15, 1955, at Sacramento. It was submitted upon receipt of a late-filed Second Amendment to Application on December 24, 1955.

The Applicant:

Applicant was incorporated on May 31, 1955, as Manlove Water Company with an authorized capital stock of \$250,000. By amendment of its articles of incorporation filed with the Secretary of State on September 12, 1955, its name was changed to Rosemont Water Company.

Applicant's purpose is to provide water service to the real-estate subdivisions being developed as residential areas by Rosemont Development Co. In its original application, applicant sought certification for an area containing approximately 1,576 homesites. After amendment, applicant seeks certification for an area containing only 152 homesites. Neither the area originally contemplated nor the area finally sought represents more than a small fraction of the total area for which applicant was granted a county franchise.

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 work, bookkeeping, accounting and customers' service help, and it also intends to utilize the services of an officer of another public utility,^{1/} on a part-time basis, for upkeep of the system, meter reading and customers' billing.

^{1/} Mr. Monroe Wells, President of wells Water Service, a public utility water corporation.

Description of the Water System

Rosemont Development Co. has already installed a water system in the area. The source of supply is a 12-inch well, 268 feet deep, with a pump, therein, driven by a 50-hp electric motor. A 5,000-gallon pressure tank is installed at the well site. The distribution system contains 1,395 feet of 4-inch, 5,950 feet of 6-inch and 1,960 feet of 8-inch asbestos-cement pipes with appurtenant fittings and valves. Connected to the system are 12 wharf-type fire hydrants with 4-inch risers and 2-1/2-inch hose connections. Applicant proposes to serve artificially fluoridated water to all of its customers.

The well site lies outside the boundaries of the area for which applicant seeks a certificate.

Applicant's Acquisition of the Water System

Applicant proposes to acquire a portion of the water system installed by the development company by issuing to the development company capital stock having a par value of \$22,000. With the proceeds from such stock issue applicant would purchase production facilities comprising the following:

<u>Item</u>	<u>Estimated Cost</u>
Land for Well Site	\$ 750
Pump Building	500
Well	5,000
Pump, Motor, Wiring	7,000
Fluoride Feeder and Motor	1,250
Pressure Tank	1,250
50 Feet of 8-Inch Pipe	171
Two 8-Inch Gate Valves	286
Engineering Costs	300
Total	<u>\$16,507</u>

Presumably the \$5,493 difference between the cost of the physical plant and the total proceeds of the stock issue would be devoted to the meeting of applicant's costs of organization, the costs of the county franchise, the costs incident to this proceeding, and in addition, the providing of some working capital.

Applicant proposes to acquire the balance of the physical plant under an agreement to pay the development company a proportion of the revenues obtained from operation of the system.^{2/} The estimated cost of this portion of the water system is as follows:

<u>Item</u>	<u>Estimated Cost</u>
Distribution Mains and Valves	\$27,939
Services	2,736
Fire Hydrants	852
Engineering	750
Total	<u>\$32,277</u>

Applicant's Rate Proposal and Revenues

Applicant proposes to provide basic residential and business service at flat rates and to supply industrial and abnormal residential or business service at meter rates. Applicant alleges that the rates which it proposes are closely comparable to the rates charged by other utilities in the general area. The proposed rates are as follows:

Flat Rate Service

Residential Service, 3/4-Inch Connection:

	<u>Charge per Month</u>
Lot area of 6,000 sq.ft. or less	\$ 3.00
Lot area of 6,001 sq.ft. to 7,500 sq.ft....	3.25
Lot area of 7,501 sq.ft. to 9,000 sq.ft....	3.50
Lot area of 9,001 sq.ft. to 11,500 sq.ft....	3.75
Lot area of 11,501 sq.ft. to 12,000 sq.ft....	4.00
For 1-inch connection, add to above rates ...	2.00
Additional residential unit on same lot	2.00

Commercial Service:

For 3/4-inch connection	\$ 3.00
For 1-inch connection	4.50
For 1-1/2-inch connection	8.00
For 2-inch connection	12.00
For 3-inch connection	20.00
For 4-inch connection	30.00

^{2/} Such proposal is taken from the provisions of Appendix B (Section C) 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".

Metered ServicePer Meter per Month

Quantity Rates:

First	800 cu.ft. or less	\$ 2.50
Next	1,200 cu.ft., per 100 cu.ft.....	.25
Next	2,000 cu.ft., per 100 cu.ft.....	.20
Next	6,000 cu.ft., per 100 cu.ft.....	.15
Next	10,000 cu.ft., per 100 cu.ft.....	.125
Over	20,000 cu.ft., per 100 cu.ft.....	.10

Minimum Charge:

For	5/8 x 3/4-inch meter	2.50
For	1-inch meter	4.50
For	1-1/2-inch meter	8.00
For	2-inch meter	12.00
For	3-inch meter	20.00
For	4-inch meter	30.00

Applicant estimates that such rates will produce gross annual revenues of \$6,009 when all of the 152 homes in the tract are fully served.

Estimated Operating Expenses

Applicant's estimate of annual operating expenses totals \$5,641, distributed as follows:

Source of Water Supply	\$ 100
Pumping Power	1,200
Water Treatment	450
Distribution System	400
Customer Accounting	600
General Expenses	600
Taxes	1,157
Depreciation	1,134
Total	<u>\$5,641</u>

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 and general service 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 exceed its estimate in a relatively short time.

Summary of Earnings.

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

Operating Revenues		\$6,009
Operating Expenses		
Before Taxes and Depreciation	\$3,350	
Taxes	1,157	
Depreciation	<u>1,134</u>	
Total Operating Expenses		<u>5,641</u>
Net Revenue		\$ 368

Under applicant's proposed method of financing the acquisition of the system, the annual payment on the principal of the indebtedness on the basis of applicant's revenue estimate would be 22 per cent of \$6,009 or \$1,328. It should be obvious that net revenues will be insufficient to meet such payments. Net revenues together with all depreciation accruals will do little more than meet such payments. Even a minor decrease in revenues or a minor increase in expenses could seriously upset the apparent balance and place applicant in a precarious financial position.

Although applicant is not presently seeking certification for the entire area owned or controlled by the development company, it contemplates ultimately serving such area. Applicant offered no evidence respecting operating revenues, operating expenses, capital costs or methods of financing its expansion into such area.

Conclusions

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 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.

Applicant's contention that it will have a going system when it owns only the source of water supply facilities is specious. A source of supply without means of delivery is not a water system. The plan of acquisition herein is inappropriate and, in our opinion, adverse to the public interest.

In view of the record relating to applicant's prospective operating revenues and expenses as related to its proposed financing, and its contemplated method of operating the system, serious doubt arises respecting applicant's ability to survive if the development company were to withdraw the use of the real-estate office or the development company's employees which applicant contemplates using to meet the day-to-day needs of the water company and its customers. The record is not clear as to how applicant may operate after the real-estate developers have completed their land and home sales and have departed. The public interest demands that a utility have some reasonable prospect of financial survival and perpetuity of service to the public. In our opinion applicant's showing in these respects is insufficient to warrant a finding by this Commission that public convenience and necessity require or will require that applicant serve the area requested.

We conclude from the evidence that the present application should be denied. If applicant, by supplemental application herein, is able to present a plan whereby it will own the entire initial water system, including production, storage and distribution facilities, without obligation to meet the provisions of any revenue refund agreements, and, further, that it 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 considered by the Commission and based upon the findings and conclusions contained in the foregoing opinion;

IT IS ORDERED that the application of Rosemont Water Company, filed herein as Application No. 37312, be and it is hereby denied without prejudice.

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

Dated at San Francisco, California, this 23rd day of January, 1956.

[Signature]
President

[Signature]

[Signature]

[Signature]

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Commissioners