

ORIGINAL

Decision No. 50127

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 HIGHLANDERS WATER COMPANY, a Cali-
 fornia corporation, for a certificate
 of public convenience and necessity
 to authorize the operation of a
 water distribution system as a public
 utility in the County of Riverside,
 State of California, to establish
 rates, and to authorize the issuance
 of stock.)

Application No. 37069
 Amended

OPINION AND ORDER MODIFYING DECISION NO. 52736

Applicant filed a petition for rehearing or modification of order in Decision No. 52736 on March 26, 1956. The petition requests the Commission to: (1) certificate 600 acres of land instead of the 256 acres authorized in the order; (2) remove the provision that no extensions of service be made outside the certificated area; (3) authorize the schedule of rates requested in its amended Exhibit G attached to the first amendment to its application; (4) approve the acquisition by Highlanders of 3,000 shares of Riverside Water Company's nonappurtenant stock at a price of \$70 per share; (5) establish rates to permit applicant to pay the inch-day rate and the assessment charge of Riverside Water Company; (6) eliminate the requirement for a supplemental standby water supply of 600 gallons per minute; (7) authorize the issuance of 10,300 shares of applicant's stock to Riverside Water Company on condition that Riverside transfer all of its interest therein to Sun Gold, Inc.; (8) issue unsecured 5 per cent, 10-year promissory notes to Sun Gold, Inc., for cash in the amount of \$147,000; (9) issue unsecured 5 per cent, 10-year promissory notes to Riverside Water Company, totaling \$140,000 in exchange for 2,000 shares of Riverside's proposed

nonappurtenant stock; and (10) grant permission to file a supplemental application with respect to the balance of the 6,000 acres of land within the proposed entire service area of applicant.

Applicant states in its further proposal that Riverside Water Company will make available a firm supply of water from the Cunningham well; has taken steps to issue nonappurtenant shares of its capital stock in exchange for its now issued and outstanding shares of appurtenant stock; will place a duty of water of at least one tenth of a miner's inch per share; has indicated its willingness to sell applicant 1,000 shares of its nonappurtenant stock, upon approval of the Corporation Commission, for cash; and will make available 2,000 additional shares of such stock on the same basis as they become available at a price of \$70 a share, the purchase price to be represented by a 5 per cent, 10-year promissory note of applicant. Riverside has also indicated to applicant its willingness to dispose of all of its interest in applicant to Sun Gold, Inc., and applicant states that Riverside would be eliminated from any supervision or control of applicant.

Summaries of earnings of Highlanders Water Company under the rates to be authorized herein are estimated to be as follows:

<u>Item</u>	<u>74 Per Cent Development</u>	<u>100 Per Cent Development</u>
Revenues	\$119,200	\$161,500
Expenses, Taxes and Depreciation	96,327	125,971
Net Revenue	22,873	35,529
Rate Base	426,250	542,439
Rate of Return	5.4%	6.5%

The revenues in the above tabulation are computed on the basis of water use consumption at the rate of 2.2 acre-feet per acre per annum. Maintenance and operating expenses have been adjusted from those shown in Exhibit No. 15 to include the quantity charge and annual assessment charge of the Riverside Water Company based on its present charges.

The rate bases have been adjusted from those shown in Exhibit No. 15 to reflect a further deduction of \$50,000 which represents the estimated cost of the transmission main to the La Colina Tract. This amount is required to be advanced by the subdivider subject to refund by the main extension rule ordered by the Commission's Decision No. 50580, dated September 28, 1954. The rate bases have been further adjusted from that shown in Exhibit No. 15 to include 1,750 shares of Riverside Water Company's proposed nonappurtenant stock at \$70 per share. The rates authorized herein will result in rates of return of 5.4 per cent with 74 per cent development and 6.5 per cent with 100 per cent development of the 600 acres to be certificated herein, which latter rate of return the Commission hereby finds to be reasonable for the future.

Initially, applicant will have the Lemona Heights Mutual Water Company well as a source of water supply. Additional water may be obtained at the present time in two ways: (1) develop its own water system with wells, pumps, reservoirs and transmission mains; (2) purchase water from a company such as Riverside Water Company which has salable water, and which has agreed to sell applicant the necessary shares of stock to currently supply 100 miner's inches of average continuous flow per annum with a monthly accumulative right, and has given applicant an option to acquire shares for an additional 200 miner's inches, as they become available, at a cost of \$700 per miner's inch.

In view of the unknown factors in developing good wells, in addition to the establishment of water rights, and considering the imminent development of the area certificated herein, it would appear to be in the public interest to authorize the purchase of water from Riverside Water Company. It would appear that the cost of developing applicant's own system would not be appreciably less

than \$122,500 in order to develop a water supply as reliable as that available from Riverside Water Company's Cunningham and First Street wells.

The staff has investigated the historical cost of water rights and gathering facilities of Riverside Water Company and has found such cost to support a price of \$700 per miner's inch. The \$70 a share and the equivalent \$700 per miner's inch are not unreasonable when considering the historical cost to Riverside Water Company of developing water and gathering facilities.

The Commission has considered applicant's petition for rehearing or modification ^{of the} order in Decision No. 52736 ^{and the showings made thereunder,} and has reached ^{the} the following conclusions: *John*

1. That the order should be modified to certificate approximately 600 acres of land as more definitely set forth by the map, Exhibit J, attached to the third amendment to the application and shown in green thereon. For this purpose the Commission finds 2.2 acre-feet of water use consumption per acre per annum to be reasonable for the development of the areas certificated herein. This development will require a water supply of 175 miner's inches of average continuous flow for the peak month, which will be available from Lemona Heights well and Riverside's Cunningham and First Street wells.

2. The 175 miner's inches are adequate for an area somewhat greater than 600 acres and, in view of applicant's option to purchase the total of 300 miner's inches, or an additional 125 miner's inches, of water from Riverside Water Company, applicant should be permitted to extend into contiguous territory under Section 1001 of the Public Utilities Code.

3. Consideration has been given to applicant's request for rates as set forth in its first amendment to the application. Such

rates will, however, produce in excess of a reasonable rate of return, and the rates as set forth in Appendix A attached to this order will be authorized. The rates to be authorized herein, based on 2.2 acre-feet of water use consumption per acre per annum, will cover the operating expenses, including the inch-day rate and the annual assessment charge made by Riverside Water Company, and will yield a reasonable rate of return based on the full development of the certificated area.

4. Applicant initially will be authorized to acquire 1,000 shares of Riverside's nonappurtenant stock at a price of \$70 per share.

5. The order in Decision No. 52736 will be amended to eliminate the requirement of a standby water supply of 600 gallons per minute. A physical connection will be required to be constructed by applicant between the Cunningham and First Street wells of Riverside Water Company for standby purposes.

6. Ordering paragraph 7 in Decision No. 52736 will be amended to include the condition that Riverside transfer all of applicant's stock to Sun Gold, Inc.

7. Applicant will be authorized to issue 10,300 shares (par value \$10) of stock to Sun Gold, Inc., for \$103,000 cash.

8. Applicant will be authorized to issue unsecured 5 per cent, 10-year promissory notes to Sun Gold, Inc., for cash in the amount of \$97,000. The remainder of the \$147,000 requested will not be authorized herein as it is required by the Commission's main extension rule to be advanced by the subdivider subject to refund.

9. Applicant will be authorized to issue unsecured 5 per cent, 10-year promissory notes in the amount of \$15,000 to Riverside Water Company as partial payment for the 1,000 shares of nonappurtenant stock.

10. The request for authority to issue unsecured 5 per cent, 10-year promissory notes to Riverside totaling \$140,000 in exchange for 2,000 shares of Riverside's proposed nonappurtenant stock will be denied without prejudice at this time since the additional water to be obtained by this stock will not be required until some future time. Applicant may request authority to issue additional securities by supplemental applications as and when additional water is required.

The Commission having considered each allegation, further proposals, and exhibits in the petition for rehearing or modification of order in Decision No. 52736,

IT IS HEREBY ORDERED as follows:

1. That Highlanders Water Company, a corporation, be and it is granted a certificate of public convenience and necessity to construct and operate a public utility water system in approximately 600 acres of land as more definitively set forth by the map, Exhibit J, attached to the third amendment to the application and shown in green thereon, subject to the following condition:

That applicant shall within one hundred eighty days after the effective date of this order construct a physical connection between the Cunningham and First Street wells of Riverside Water Company, and within five days thereafter shall notify this Commission in writing of the completion of construction.

2. That paragraph 2 of the order of Decision No. 52736 is amended to substitute the rates set forth in Appendix A attached to this order of modification.

3.a. That applicant be and it is authorized to issue 10,300 shares of stock in the amount of \$103,000 (par value) to Riverside Water Company for conveyance of water systems referred to, for the payment of organization expenses and for cash, provided however, that such issue shall be conditioned upon applicant first obtaining a firm commitment from Riverside to promptly transfer all of ~~applicant's~~ said stock to

Sun Gold, Inc., pursuant to private arrangements, so that Riverside shall not have any equity in or control of applicant.

b. That applicant be and it is authorized to issue 10,300 shares of stock in the amount of \$103,000 (par value) for cash, to Sun Gold, Inc.

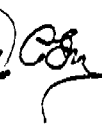
c. That applicant be and it is authorized to issue unsecured 5 per cent, 10-year promissory notes to Sun Gold, Inc., for cash in the amount of \$97,000.


d. That applicant be and it is authorized to issue unsecured 5 per cent, 10-year promissory notes to Riverside Water Company in the amount of \$15,000 as partial payment for the 1,000 shares of nonappurtenant stock.

4. That applicant shall use the proceeds from the sale of said stock and the issuance of said notes for the acquisition of facilities and water stock and for working capital, the Commission being of the opinion that the money, property or labor to be procured or paid for by the issuance of such securities is reasonably required by applicant for the purposes herein stated and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

5. That applicant shall offer service without discrimination as more particularly set forth in Exhibit D attached to its petition herein.

6. The dates for compliance in ordering paragraphs 5 and 9 of Decision No. 52736 are hereby extended sixty days.

7. That initial ordering paragraph 1 and subsequent ordering paragraphs 1 and 7 of Decision No. 52736 are hereby ~~cancelled~~ *Sit aside and vacated.* 

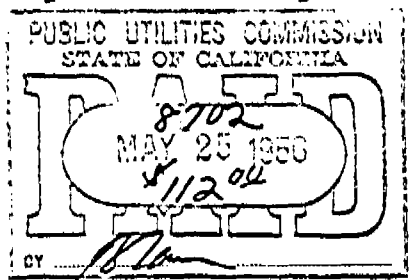
IT IS HEREBY FURTHER ORDERED that the petition for rehearing or modification of order of Highlanders Water Company, except as specifically herein granted, be and it is denied, ~~without prejudice~~ 

The authority herein granted to issue notes will become effective when Highlanders Water Company has paid the fee prescribed by Section 1094(b) of the Public Utilities Code, which fee is \$112. In all other respects the effective date of this order shall be twenty days after the date hereof.

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

Robert E. Mitchell
President
Justus F. Green
R. H. ...

Ray E. Untereiner, Commissioners
Commissioner Matthew J. Dooley, being necessarily absent, did not participate in the disposition of this proceeding.



APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

In unincorporated territory east of Riverside, Riverside County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 700 cu.ft. or less	\$ 2.65
Next 1,300 cu.ft., per 100 cu.ft.29
Next 2,000 cu.ft., per 100 cu.ft.23
Over 4,000 cu.ft., per 100 cu.ft.20
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 2.65
For 1-inch meter	5.00
For 1½-inch meter	8.00
For 2-inch meter	11.00

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