

Decision No. 53128

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
ANDERSON HEIGHTS WATER COMPANY for (1))
a certificate of public convenience and)
necessity to construct and operate a)
water system for the Anderson Heights)
Subdivision, Anderson, Shasta County,)
California; (2) to establish rates for)
the service rendered; and (3) for)
authority to issue its capital stock.)
_____)

Application No. 37756

Edwin J. Regan for applicant.
John D. Goodrich, Jr., for the City of Anderson,
interested party.
Robert C. Moeck for the Commission staff.

O P I N I O N

Anderson Heights Water Company, a California corporation, by application filed February 16, 1956, requests an order granting it a certificate of public convenience and necessity to operate a public utility water system to serve Anderson Heights Subdivision located in the City of Anderson. By an amendment to the application authority is requested to issue \$1 par value stock in the aggregate amount of \$250,000. Applicant also seeks to establish rates.

Public hearing was held in Anderson before Examiner Rowe on March 29, 1956. Evidence both oral and documentary was adduced and the matter submitted for decision. No one appeared in opposition. However, the City of Anderson introduced into evidence the filed tariff of Anderson Water Company which serves much of the city. These rates are substantially lower than those proposed by applicant.

The area proposed to be served is known as Anderson Heights Subdivision located in the City of Anderson, Shasta County. It lies southerly of the Anderson-Cottonwood Irrigation District right of way and southwesterly of U. S. Highway 99. The proposed initial

installation will serve 182 residential lots and a total of over 500 connections is eventually contemplated. The areas of the lots vary from approximately 6,000 square feet to 10,000 square feet, with an average of 7,500 square feet. The area is slightly rolling.

The Project as Proposed

The water supply for the development is to be obtained from a well located adjacent to a 500,000-gallon ground reservoir at the top of a hill overlooking the subdivision. The water is to flow by gravity from the reservoir through 6-inch, 8-inch and 10-inch dipped and wrapped steel pipe. Services will be 3/4" copper tubing.

Financing

The application states that the cost of the system will be financed completely by the corporation, without mortgage, deed of trust or other encumbrance against the properties, the money to be advanced by three incorporators in exchange for stock. The articles of incorporation provide for only \$1,000 par value of capital stock. However, by the amendment filed after hearing it is proposed to increase the amount of stock issue to \$250,000. The authority to issue any stock will be conditioned upon applicant's amending its articles of incorporation to permit this. At this time applicant will be conditionally authorized to issue \$75,000 par value of its stock.

Rates and Rules

Rates are proposed only for general metered service. The rates proposed are somewhat higher than those of other privately-owned water utilities in the area. No evidence was produced by applicant to justify the proposed rates, except that they are asserted to represent a rough average of water company rates charged in the state. The general manager of the subdivider corporation, Kates Land Company, stated that as this was a new venture an estimate of operating costs is impossible. As will later appear no rate base has

been established so that testimony that the proposed rates will produce a six per cent return cannot be accepted. Applicant will be authorized to establish rates which will be stated in the following order. Such rates are justified solely as representing a reasonable charge considering the probable operating expense and the value to the customer of the service received.

Plant Investment

Applicants have sought to establish the cost of the system by the introduction into evidence of a contract Exhibit No. 1. This agreement was executed by and between Beresa, Inc., and Anderson Heights Water Company, the applicant herein. It bears the date March 1, 1956. This contract seems more in the nature of an agreement to sell the system to applicant, than a contract for construction. Applicant in the amendment to the application takes the inconsistent positions that this contract is a construction contract between applicant and Beresa, Inc., and also, that it is a contract of sale between Beresa and the three individuals who have incorporated applicant.

Considered as a construction contract this instrument can have little evidentiary value as to the cost of construction because it was entered into between parties neither of whom has been shown to own the land on which the system has been erected, and also it was executed at a time when the major items of construction were completed. Treated as a contract of sale it can have little value for such purpose considering the fact that two of the incorporators of applicant are large stockholders in Beresa and also when it is remembered that the only evidence of ownership is that the reservoir is constructed on land owned by Kates Land Company. Lacking direct evidence on the point it would appear reasonable to assume that the subdivider rather than the construction company is the owner of the land being subdivided.

It must be assumed that the construction of the water system, which was commenced late in 1955, was carried on pursuant to some contract or agreement between the construction company and the subdivider, the owner of the land. This contract was not made a part of the record of this proceeding, so the Commission does not have the benefit of the evidentiary value of such a contract.

An employee of a civil engineer with offices in Redding testified that the cost of laying the mains and service connections, along with all fixtures and equipment, would be \$112,310; the supply well and reservoir would cost \$21,300; and that an engineering cost of 10 per cent of the total of the above two items, or the amount of \$13,360, along with a contractor's profit of 30 per cent, or \$40,080, all adding to a total of \$187,050 would be a fair figure for the total cost of the system. This estimate is considerably lower than the asserted value of \$232,120 mentioned in the contract. The witness believed the difference to result from the cost of the real estate, which he had not included in his figures. These figures cannot be accepted by the Commission as well enough substantiated to justify a finding of their validity, and the order which follows will require applicant to provide more accurate data as to the original costs of the water system.

According to the record the stockholders of both Beresa, Inc., the construction company, and of Kates Land Company, the subdivider, are Caroline M. Bechtel, R. E. Reilly, R. J. Reilly, Emanuel Bechtel and Collett Corregan. Caroline Bechtel and R. E. Reilly will own one half of the stock of applicant corporation. Talbot D. Baily, who will own the remaining half of the stock of applicant, owns no stock in the other two companies and appears to have taken no active part in the planning and promotion of the enterprise.

Under the circumstances, the Commission can make no finding as to the actual cost of the land or of actual construction costs applicable to applicant's capital accounts or to be used for rate-making purposes. The asserted cost per connection of \$400 has not been proved and in fact appears unjustified.

The costs of materials and reasonable construction costs as determined by using the evidence submitted at the hearing permit a finding that applicant will require \$75,000 to acquire the pumping site for the reservoir and all other facilities for supplying water to 182 customers. Applicant will be authorized to issue common stock in the aggregate principal amount of \$75,000 to provide for the following:

Distribution Mains	\$26,431.90
Services and meters	12,740.00
Fire hydrants	1,800.00
Well, pump, reservoir	<u>21,300.00</u>
	\$62,271.90
Land, working capital, engineering and in- cidentals	<u>\$12,728.10</u>
	\$75,000.00

The order which follows will require the submission to the Commission of a detailed showing of actual original costs of land, materials and construction to applicant or any of its affiliates. In addition, applicant's request for a certificate will be granted conditioned upon applicant's developing a permanent supply of water for its system satisfactory to the Commission.

Conclusion

No other public utility water system renders service in or contiguous to this proposed service area and no objection has been made to the granting of a certificate of public convenience and

necessity to applicant as herein requested. Under the circumstances it appears and we find that public convenience and necessity require and will require that applicant be granted authority to serve as a public utility water system in this area, upon the conditions set forth below.

Before applicant will be permitted to charge rates in excess of those hereinafter provided applicant will be required to justify them in the usual manner. For such purpose it becomes essential that the rate base be established. This should be done in the immediate future. The facts upon which such a determination may be made are now fresh in the minds of the witnesses and can now be more easily established to the satisfaction of the Commission. By the issuance of the amount of capital stock hereinafter authorized applicant should be able to acquire the portion of the contemplated system to serve the first 182 units and commence operations.

The certificate herein issued 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.

O R D E R

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

IT IS FOUND AS A FACT that public convenience and necessity will require the construction and operation of a public utility water system by applicant in the subdivision known as Anderson Heights Subdivision, in Anderson, Shasta County, and that it is the opinion of the Commission that the money, property or labor to be procured

or to be paid for by the issue of stock hereinafter authorized is reasonably required for the purpose of acquiring the water distribution system and working capital and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income; therefore,

IT IS ORDERED that a certificate of public convenience and necessity be, and it hereby is, granted to Anderson Heights Water Company, a corporation, to construct and operate a public utility water system for the distribution and sale of water within the territory hereinbefore described.

IT IS HEREBY FURTHER ORDERED as follows:

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

(2) That applicant shall file within forty days after the system is placed in operation, four copies of a comprehensive map, drawn to an indicated scale not smaller than 200 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 water system properties of applicant.

(3) That applicant shall base the accruals to depreciation upon spreading the original cost of the plant, less estimated net salvage and depreciation reserve, over the estimated remaining life of the property; 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.

(4) That applicant shall notify this Commission in writing of the date service is first rendered to the public, within thirty days thereafter.

(5) That after the effective date hereof and on or before September 29, 1956, applicant may issue and sell, at not less than \$1 per share, 75,000 shares of its \$1 par value capital stock for the purpose of acquiring the water distribution system including the storage reservoir, all distribution mains, and facilities sufficient to supply the first 182 housing units.

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

(7) That the authority herein granted shall expire unless exercised within one year after the effective date hereof.

IT IS HEREBY FURTHER ORDERED as follows: That the decision herein is conditioned upon and shall become effective only when applicant has filed with the Commission, in a form satisfactory to the Commission, the following:

- a. Copies of deeds to the lands on which the reservoir is located and covering all necessary rights to the use of such land by applicant in the providing of service as a public utility water company.
- b. A certificate by applicant assuring the Commission that ample water is available to supply the initial 182 housing units.
- c. A detailed showing of the actual original costs to applicant or any of its affiliates of the land, materials and construction to be devoted to the public service.

- d. A certified copy of applicant's articles of incorporation amended to provide for an authorized capital stock of at least 75,000 shares of the par value of \$1 each.

The effective date of this decision shall be five days after the above conditions have been complied with.

Dated at San Francisco, California, this 24th day of May, 1956.

John E. Mitchell
President
Justin J. Quince
Raylo Vintermeier

Commissioners

Matthew J. Dooley,
Commissioner Rox Hardy, 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

A portion of the City of Anderson known as Anderson Heights Subdivision, Shasta County.

RATES

Quantity Rates:	<u>Per Meter per Month</u>
First 500 cu.ft. or less	\$2.50
Next 1,000 cu.ft., per 100 cu.ft.....	.30
Next 8,500 cu.ft., per 100 cu.ft.....	.20
Over 10,000 cu.ft., per 100 cu.ft.....	.15
 Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 2.50
For 3/4-inch meter	3.50
For 1-inch meter	5.00
For 1-1/2-inch meter	8.00
For 2-inch meter	12.00

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