

ORIGINAL

Decision No. 53277

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of VALLECITO WATER COMPANY for an order or orders authorizing it to issue its securities, to assume certain obligations, and to establish rates for water service in certain unincorporated area in Los Angeles County, and granting it a certificate or certificates of public convenience and necessity to acquire, construct, or extend its water system in said area and to exercise rights under a franchise obtained or to be obtained.

Application No. 36348
(Amended)

O'Melveny & Myers, attorneys, by Lauren M. Wright and Frederick N. Edwards, for applicant.
John E. Skelton, vice president and attorney, for San Gabriel Valley Water Company, protestant as to a certain area.
Charles W. Drake, Theodore Stein and Richard R. Entwistle, for the Commission staff.

O P I N I O N

Vallecito Water Company,^{1/} a corporation, by the above-entitled application filed November 26, 1954, as amended September 26, 1955, to include additional area, seeks a certificate of public convenience and necessity to construct and operate a public utility water system in the area shown in green on the map attached to the amended application as Exhibit B in unincorporated territory south and west of Puente, Los Angeles County. The establishment of rates is also sought, and authority to issue stock to acquire the assets of Whittier Extension Mutual Water Company^{2/} is requested. Applicant also requests authority to

^{1/} Hereinafter referred to as Vallecito or applicant.
^{2/} Hereinafter referred to as Whittier Extension or the mutual.

exercise the rights and privileges under a franchise obtained or to be obtained from Los Angeles County. The area for which a certificate is requested is more particularly delineated by a red line on the map, Exhibit No. 1, filed at the hearing.

Public hearings on this matter were held before Examiner Stewart C. Warner on October 13 and 14, November 21, 22, and 23, and December 20 and 21, 1955, at Los Angeles. San Gabriel Valley Water Company protested the granting of the portion of the certificate north of Los Robles, east of Turnbull Canyon Road, and south of the Union Pacific Railroad tracks as outlined by a blue line on the map, Exhibit No. 20, filed at the hearing. No other protests were entered.

General Information

Applicant filed its Articles of Incorporation with the Secretary of State on August 5, 1954, and amended them November 5, 1954, to increase the total number of shares of stock authorized by said Articles from 50,000 to 100,000. By its Articles, applicant is authorized to issue 100,000 shares of one class of stock only of a par value of \$10 per share with an aggregate par value of \$1,000,000. Applicant's first directors are Frederick N. Edwards, William E. Wiley, Jr., James E. Dunlap, James E. Cross, and Mary Lou Spicer, all with addresses at 433 South Spring Street, Los Angeles 13. H. M. Mathisen, Whittier Extension's president, is applicant's president. Applicant's principal office and place of business is 14419 Los Robles Avenue, Puente.

Description of Proposed Certificated Area and Service Area

The area for which applicant seeks a certificate of public convenience and necessity comprises approximately 2,670 acres, more or less, situated on the north slopes of the Puente

Hills in the central and east section of San Gabriel Valley. The elevation of the area ranges from 300 to 1,200 feet. As of December 31, 1954, domestic and irrigation water service was being furnished to 840 metered consumers; irrigation service was being furnished through weir boxes to 192 consumers; there were 28 tank wagon stands and 65 fire hydrants for a total of 1,125 active connections as of that date. The potential of the area is some 10,000 domestic services and the record shows that applicant has been, and is, receiving numerous requests from subdividers in the area for water service to subdivisions under construction and proposed to be constructed.

Applicant's president testified that whereas Whittier Extension has been furnishing water service to its stockholders since 1914, subdividers preferred to deal with a public utility water corporation rather than a mutual company, and, for that reason, applicant was incorporated to acquire the mutual's water system.

Description of Water System

Applicant's water system consists of a series of wells, booster stations, and pressure zones with independently operated distribution systems and reservoirs.

Applicant's sources of water supply consist of wells equipped with deep-well turbine pumps having a combined pumping capacity of 8,000 gallons per minute. They are located outside the proposed service area within the boundaries of the certificated area of the Suburban Water Systems' Puente District. The wells are northeast of the Southern Pacific Railroad in Tract 606. Water is transported by gravity from the well sites through 16-, 18-, 20- and 30-inch steel and concrete transmission lines to the San Jose booster station. From the San Jose booster station, which has

an available capacity of 6,500 gallons per minute, water is delivered into a 24-inch supply main for Pressure Zone 1 and Reservoir No. 1 with a storage capacity of 1,500,000 gallons. Los Robles booster station, with a pumping capacity of 6,300 gallons per minute, is located adjacent to Reservoir No. 1 and delivers water into the Zone 2 distribution system through a 22-inch supply main and to Reservoirs Nos. 2 and 3. These reservoirs provide the storage requirements for the Zone 2 and Zone 3 systems and have a combined storage capacity of 2,750,000 gallons.

The Avocado Terrace booster pumps are supplied with water from the 22-inch main connecting Reservoirs Nos. 2 and 3 and has an available capacity of 720 gallons per minute to boost water to Reservoirs Nos. 4 and 5 which have a combined storage capacity of 600,000 gallons. Adjacent to Reservoirs Nos. 4 and 5 is the Edgeridge booster station which has an available pumping capacity of 400 gallons per minute boosting to Reservoir No. 6 which has a storage capacity of 100,000 gallons. Irrigation service is provided in two pressure areas designated respectively as the Low Line and High Line areas. In general, irrigation service furnished at elevations below Reservoirs Nos. 2 and 3 falls in the Low Line area, and irrigation service furnished at elevations higher than Reservoirs Nos. 2 and 3 falls in the High Line area. Fire hydrant service is provided through connections to the domestic distribution system in accordance with an existing contract, which applicant proposes to continue, between the Consolidated County Fire Protection District of Los Angeles County and the mutual.

Warwickshire Heights

The record shows that applicant is furnishing domestic service through master meters to some nine consumers on Lots Nos. 6, 11, 21, 22, 25, 29, 30 and 32 of Warwickshire Tract and

A. 36348 ET

to 2.23 acres of Lot 8 of Tract No. 3397 all as shown on Exhibit No. 1 in territory certificated to San Jose Hills Water Company, now Suburban Water Systems, by Decision No. 49703, dated February 23, 1954, in Application No. 34947. Said master meters are located within mutual's service area, and applicant requests authority to continue furnishing domestic service in the area without a certificate. The record shows that no other domestic service is available to the area and Suburban Water Systems is neither ready, willing, nor able to furnish water service and would not object to applicant being authorized to continue the service, provided that it would not jeopardize Suburban's certificate for the area.

Proposed Financing

Applicant proposes to issue 47,915 shares of its capital stock of the par value of \$10 per share in consideration of the transfer to it of all properties of Whittier Extension, and to issue its promissory note or notes in the principal amount equal to and for the purpose of refunding and discharging bank notes owing by the mutual at the time of such transfer of properties. The shares issued to the mutual will be distributed by the mutual to its stockholders prorata according to the number of mutual shares owned by them in an amount equal to five of applicant's shares for each outstanding mutual share, excluding treasury shares. Since there are in the aggregate 9,583 mutual shares outstanding, the total number of shares to be issued by applicant shall be some multiple not exceeding 5 of 9,583.

Appraisals of Property

Exhibit No. 16 is an appraisal of properties of Whittier Extension submitted by applicant's engineering consultant to the mutual's Board of Directors on March 30, 1955, and dated June 30,

1954. Said appraisal was prepared in accordance with a resolution of the Board of Directors of the mutual adopted October 1, 1953. This appraisal shows total plant in service together with materials and supplies as of June 30, 1954, in the amount of \$826,885.84 with a related depreciation reserve of \$176,552.01 and total depreciated plant and materials and supplies of \$650,333.83 as of that date. Landed capital included therein was appraised at present fair value for a total of \$79,572.84. All other items were appraised at estimated original cost. Depreciation reserve requirement and annual depreciation expense were calculated on the straight-line total life basis.

Exhibit No. 22 contains an appraisal, dated June 30, 1954, by a Commission staff engineer. This appraisal shows total properties, exclusive of materials and supplies, to be \$671,294.12 with a related depreciation reserve requirement of \$250,626.76 for total depreciated properties in the amount of \$420,664.36, including landed capital of \$10,278.36, as of that date. This appraisal was based on the estimated original cost including overhead, and the depreciation reserve requirement and annual depreciation expense were calculated on the straight-line remaining life method.

Rates

Applicant proposes to continue the present rates of the mutual which were established in 1954. They are shown on Exhibit "F" attached to the applications.

The mutual's present rates for irrigation service require customers to install and maintain their own meters, and provide a discount for prompt payment. Since neither of these provisions is in accordance with tariff schedules generally authorized by the Commission, and since their inclusion does not

appear to be in the public interest, their continuance will not be authorized hereinafter.

An agreement dated September 7, 1954 between the mutual and the consolidated County Fire Protection District was presented as Exhibit No. 17. It stipulates that a rental charge of \$2.00 per month per hydrant shall be paid by the County to the mutual. Applicant proposes to continue this agreement, and will be ordered to file the fire protection schedule shown in Appendix A attached to this order.

Earnings

Applicant submitted a summary of earnings for the year 1955 estimated in Exhibit No. 15. The calculated rate of return at the rates proposed in the application was .51 per cent. The Commission's staff computed the rate of return for the estimated year 1955 at .95 per cent, and for the estimated year 1956 at 3.45 per cent.

The estimated rates of return for the domestic and irrigation systems under applicant's proposed rates as shown by the staff for the year 1956 are:

Irrigation System	2.12%
Domestic System	4.60%

Evidence of Record

The evidence of record comprises 761 pages of testimony and 27 exhibits. Considerable testimony was given and cross-examination was conducted on the appraisals heretofore referred to submitted by applicant and the Commission's staff. Counsel for applicant was willing to accept the Commission's staff determination of the estimated original cost of the fixed capital to be acquired from the mutual, except for the determination of original cost attributed to landed capital and to some spare gas engine parts. Applicant's consulting engineer applied a

10 per cent overhead factor in nearly all instances, whereas the staff engineer applied a factor ranging from 2 to 4 per cent depending on the period or date of fixed capital installation. The overhead factor used by the staff was based on a study of the mutual's operations over the past 30 years. The record shows that the mutual's books of account were kept in a loose and haphazard fashion and supporting invoices and records were practically nonexistent for some years, except for the most recent. The opening entry on July 1, 1914, purported to reflect the acquisition by the mutual of the water system assets of Whittier Extension Company, a subdividing company, for an issue of \$250,000 of mutual stock. Included in the stock transfer consideration were water system facilities in the amount of \$163,098, including the opening entry plus additions, to December 31, 1918. Applicant claims that a water rights value of \$86,902 arose from the issuance of stock in excess of the value of the properties exchanged.

The June 30, 1954 appraisal made by the company's consulting engineer was partially recorded on the books of the mutual as of June 30, 1955 in the amount of \$706,656. Land and land rights were partially included and the recorded amount was \$77,415. Engineering costs of \$24,031 from October 1, 1953 to June 30, 1955 are included in the above figure of \$706,656. Water rights value recorded on the company books during the period July 1, 1914 to December 31, 1918 in the amount of \$86,902 remains on the mutual's books. Plant additions from July 1, 1954 to June 30, 1955 are recorded at cost and amount to \$9,430.

Exhibit No. 23 is a copy of Ordinance No. 6798 adopted October 25, 1955 by Los Angeles County Board of Supervisors granting to applicant a franchise to use the County roads and highways for the installation, construction and maintenance of its water system facilities.

Conclusion

After a complete review of the record, the Commission is of the opinion and so finds that public convenience and necessity require that the application be granted subject to the following provision of law:

That the Commission shall have no power to authorize the capitalization of the franchise involved herein or this certificate of public convenience and necessity or the right to own, operate, or enjoy such franchise or 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 franchise, certificate of public convenience and necessity or right.

It is evident and the Commission so finds that the value of the property proposed to be acquired for the issuance of stock will be the amount determined by the Commission's staff in its appraisal of fixed capital as shown in Exhibit No. 22, plus the net additions and betterments since June 30, 1954, to the date of the transfer authorized by the order hereinafter. The transfer of properties should be effected at the original cost or estimated original cost to the mutual of the assets and should be so recorded on applicant's books of account.

Included in the staff appraisal is the amount of \$4,366.14 for a 30-inch cement pipe from Lot 442, Tract 606, to Puente Creek. This line has been paralleled by a 30-inch steel line and has no use at present. It is proposed that a reservoir be erected on Lot 442, Tract 606, in the future and the 30-inch

cement pipe will be used as a drain line. In the meantime, it is plant held for future use and applicant will be ordered to set up this amount in Account 100.4, Utility Plant Held For Future Use. The accrued depreciation against this plant will be ordered to be set up in Account 250.3, Reserve For Depreciation of Utility Plant Held For Future Use, in the amount of \$2,183.07 as of June 30, 1954.

An amount of \$3,659.88 is also included in the above appraisal for a 26-inch pipe line laid across the Los Angeles Flood Control ditch and paid for by the Los Angeles Flood Control District. Applicant will be ordered to credit this amount to Account 265, Contributions in Aid of Construction.

Applicant will be authorized to continue to serve the premises of the nine consumers in the Warwickshire Heights area and Tract No. 3397 through master meters located within the area to be certificated to applicant.

The protest of San Gabriel Valley Water Company does not appear to be valid and no good cause was shown by San Gabriel for excluding the area protested from that to be certificated to applicant.

Applicant will be authorized to file the schedule of rates proposed in the application except that the quantity rates in the first block of the monthly minimum rate for domestic metered service will be increased to \$2.50 per meter per month for water usage of 1,000 cubic feet or less. The provision for the furnishing of meters by irrigation customers will be eliminated and the monthly discount of 10 per cent for prompt payment of bills will be discontinued, and the irrigation meter rate will be reduced by that percentage.

Applicant will be authorized to issue 38,332 shares of common stock of par value of \$10 per share which will be distributable on a 4 to 1 basis to the mutual shareholders. The difference between the par value of the stock to be issued and the original cost of the properties plus the net current assets to be acquired should be charged to capital surplus.

O R D E R

Amended application as above entitled having been filed, public hearings having been held, the matter having been submitted and now being ready for decision based on the evidence and findings,

IT IS HEREBY ORDERED as follows:

1. That a certificate of public convenience and necessity be and it is granted to Vallecito Water Company to acquire, construct and operate a public utility water system in the area delineated by a red line on the map, Exhibit No. 1, filed at the hearing.
2. That applicant be and it is authorized to continue to furnish service to the premises of the nine consumers now receiving domestic water service on Lots Nos. 6, 11, 21, 22, 25, 29, 30, and 32, of Warwickshire Heights tract and 2.23 acres of Lot 8 of Tract No. 3397 in the County of Los Angeles through master meters installed within the boundaries of applicant's certificated area.
3. That applicant shall not make extensions into territory lying outside of the boundaries of the areas herein being certificated without authority first having been obtained from this Commission.
4. That a certificate of public convenience and necessity be and it is granted to Vallecito Water Company to exercise the rights and privileges granted by the County of Los Angeles by Ordinance No. 6798, adopted October 25, 1955.

5. That applicant be, and it 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 rules and 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 on five days' notice to the Commission and to the public after filing as hereinabove provided.
6. That applicant shall file, within forty days after the system is placed in operation under the rates and rules authorized herein, four copies of a comprehensive map drawn to an indicated scale not smaller than 300 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.
7. That applicant shall base the accruals to the depreciation reserve upon spreading the original cost of the plant, less estimated net salvage and depreciation reserve, over the estimated remaining life of the property, and shall use the depreciated rates shown in Exhibit No. 22, page 61. These rates shall be used until a review indicates that they should be revised. Applicant shall review the depreciation rates when major changes in plant composition occur and for each plant account at intervals of not more than three years. Results of these reviews shall be submitted to the Commission.
8. That applicant be and it is authorized to issue 38,332 shares of stock in the amount of \$383,320 par value to Whittier Extension Mutual Water Company for conveyance of the water system referred to for the payment of organization expenses and for all other assets of the mutual company; the Commission being of the opinion that the money, property, or labor to be procured or paid for by the issuance of such stock 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.
9. That applicant shall set up on its books of account the utility plant in service, plant held for future use, material and supplies, reserve for depreciation of utility plant, reserve for depreciation of utility plant held for future use, and contributions in aid of construction as of June 30, 1954, as hereinbefore set forth. The net additions and betterments from June 30, 1954 to date of transfer will be added to the original cost.

Within sixty days after the acquisition of Whittier Extension Mutual Water Company by applicant, it shall submit to this Commission in writing a copy of the general entries showing the acquisition.

- 10. That applicant shall file with the Commission a report or reports as required by the Commission's General Order No. 24A, which order, insofar as applicable, is made a part of this order.
- 11. That the authority herein granted will expire if not exercised within one year from the effective date hereof.

IT IS HEREBY FURTHER ORDERED that the application of Vallecito Water Company as amended, except as specifically herein granted, be and it is denied without prejudice.

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

Dated at San Francisco, California, this 26th day of January, 1956.

John E. Mitchell
President

Justin J. Casares

Ray E. Lutz

Montgomery Cook

Commissioners

Commissioner Rex Hardy, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
Page 1 of 6

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area approximately 2 miles north and east of the City of Whittier in the Puente Hills, Los Angeles County.

RATES

	<u>Per Meter per Month</u>
Quantity Rates:	
First 1,000 cu.ft. or less	\$ 2.50
Next 2,000 cu.ft., per 100 cu.ft.....	.20
Next 5,000 cu.ft., per 100 cu.ft.....	.15
Next 12,000 cu.ft., per 100 cu.ft.....	.10
Next 20,000 cu.ft., per 100 cu.ft.....	.08
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 2.50
For 3/4-inch meter	3.00
For 1-inch meter	4.00
For 1-1/2-inch meter	6.40
For 2-inch meter	8.50
For 3-inch meter	13.00
For 4-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.

Schedule No. L-3
IRRIGATION SERVICE
LOWER ZONE

APPLICABILITY

Applicable to all measured irrigation service furnished to individual customers.

TERRITORY

That portion of the service area below Reservoir No. 2 or Reservoir No. 3 at approximately the 700-foot contour in the unincorporated area approximately 2 miles north and east of the City of Whittier in the Puente Hills, Los Angeles County.

RATES

	<u>Per Delivery per Service</u>
Quantity Rates:	
First 1,800 cu.ft. or less	\$2.25
Over 1,800 cu.ft., per 100 cu.ft.....	.045
Minimum Charge:	
For each meter or measuring device through which water is delivered	\$2.25

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

Schedule No. U-3

IRRIGATION SERVICE

UPPER ZONE

APPLICABILITY

Applicable to all measured irrigation service furnished to individual customers.

TERRITORY

That portion of the service area above Reservoir No. 2 or Reservoir No. 3 at approximately the 700-foot contour in the unincorporated area approximately 2 miles north and east of the City of Whittier in the Puente Hills, Los Angeles County.

RATES

	<u>Per Delivery per Service</u>
Quantity Rates:	
First 1,800 cu.ft. or less	\$2.70
Over 1,800 cu.ft., per 100 cu.ft.....	.063
Minimum Charge:	
For each meter or measuring device through which water is delivered	\$2.70

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

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to duly organized or incorporated fire protection districts or other political subdivisions of the State.

TERRITORY

The unincorporated area approximately 2 miles north and east of the City of Whittier in the Puente Hills, Los Angeles County.

RATE

Per Month

For each hydrant \$2.00

SPECIAL CONDITION

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

Schedule No. 9C

CONSTRUCTION AND OTHER TEMPORARY FLAT RATE SERVICE

APPLICABILITY

Applicable to water service furnished for construction and temporary purposes.

TERRITORY

The unincorporated area approximately 2 miles north and east of the City of Whittier in the Puente Hills, Los Angeles County.

RATES

- | | | |
|-----|---|--------|
| (1) | For each 100 sq. ft. of concrete sidewalk constructed ... | \$0.15 |
| (2) | For each 100 lineal feet of concrete curb constructed ... | .30 |
| (3) | For settling backfill of trenches, for each lineal foot of trench with 8 sq. ft. of cross-sectional area, or less | .01 |
| (4) | For settling graded street, for each 100 sq. ft. of street graded | .05 |
| (5) | For each 100 sq. ft. of concrete street constructed | .20 |

SPECIAL CONDITION

For other temporary uses, an estimate of the quantity of water delivered will be made by the utility. The charge for this water will be made at the Quantity Rates under Schedule No. 1, General Metered Service.

Schedule No. 9X

TANK TRUCK SERVICE

APPLICABILITY

Applicable to water furnished at designated tank truck outlets.

TERRITORY

The unincorporated area approximately 2 miles north and east of the City of Whittier in the Puente Hills, Los Angeles County.

RATES

Quantity Rates:	<u>For Delivery</u>
First 500 gallons or less	\$0.15
Over 500 gallons, per 100 gallons03

SPECIAL CONDITION

Each service under this schedule must be applied for at the office of the utility to establish credit, make deposit for a key, report the capacity of the containers to be used and estimate the total gallons to be received during the period of the service.