



been granted various authorities by this Commission relative to the area involved.<sup>2/</sup>

By the application herein, filed on July 25, 1955, the following authorities are sought:

(1) M. E. Jones, hereinafter referred to as Jones, seeks to transfer the assets of Jones Water Company to Santiago Water Company, a California corporation, formed for the purpose of acquiring and operating said company, in exchange for capital stock of the corporation.

(2) Santiago Water Company, hereinafter referred to as Santiago, seeks authority to issue additional shares of its stock for cash with which it proposes to improve the existing system and pay the costs of incorporation.

(3) Santiago seeks authority to increase the rates in the territory being served by Jones.

(4) Santiago requests a certificate of public convenience and necessity to serve domestic water within the area outlined in red on the map, Exhibit "D", attached to the application.

Public hearings were held in Orange, California, on March 15 and April 3, 1956, before Examiner Kent C. Rogers, and

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<sup>2/</sup> Decision No. 9993, dated January 17, 1922, in Application No. 7210 (discontinuance of service in the City of Orange; Decision No. 13705, dated June 16, 1924, in Application No. 9970 (authorization for metered water service in the El Modeno area); Decision No. 26387, dated October 2, 1933, in Application No. 19048 (to purchase from American States Water Company the El Modeno Water System); Decision No. 33815, dated January 21, 1941, in Application No. 23818; Decision No. 34054, dated March 25, 1941, in Application No. 23818, 1st Supplemental; Decision No. 34246, dated May 27, 1941, in Application No. 23818, 2nd Supplemental (transfer of water system to M. E. Jones); and Decision No. 35272, dated April 21, 1942, in Application No. 24912 (M. E. Jones and his wife authorized to transfer certain properties in the water system to the heirs and devisees of the estate of R. W. Jones, deceased). By letter dated April 13, 1956, from the attorney for both applicants herein it appears that M. E. Jones is the sole owner of the Jones Water Company.

the matter was submitted subject to the filing with the Commission of certain exhibits. These exhibits have been filed and the matter is ready for decision. Prior to the first hearing, notice thereof was published and mailed to each of Jones' consumers as required by this Commission. A copy of the application was mailed to the Orange County Water District and the Tustin Water Works, among others, on August 1, 1955, and notices of the hearing were served on them on February 9, 1956. Neither made an appearance at the hearing.

Present Service

Jones furnishes domestic water to approximately 500 consumers in the El Modeno area of Orange County.<sup>3/</sup> All but one of the services are metered, and 61 of the meters measure service to two or more consumers, the result being that there are approximately 381 meters. With few exceptions all of the consumers are located in the Carpenter Irrigation District from which district Jones secures his water. The amount of water Jones may receive is limited only by the size of his facilities. The present inlet limits him to 810 gallons per minute. The water is delivered by the district to Jones' 460,000-gallon concrete reservoir located near Santiago Boulevard and Lomita Street. This reservoir is situated at an elevation of approximately 360 feet. From the reservoir, water flows by gravity to the various consumers. Present pipe sizes and the approximate elevations within the service area are shown on Exhibit No. 3 herein. Several of the areas served are only slightly below the elevation of the reservoir. The

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<sup>3/</sup> See Exhibit "D" on the application. The green bordered area outlined thereon is purportedly the existing service area of Jones.

applicants' engineer witness stated that the present system is unsatisfactory in various respects including lack of adequate pressure in several areas, lack of adequate means of purifying the water, and lack of adequate size mains.

Proposed Improvements in the Existing System

Santiago proposes to purchase the existing system and to make improvements therein. Santiago is a California corporation incorporated on January 28, 1955, for the primary purpose of engaging in business as a public utility water company.<sup>4/</sup> The incorporators are M. E. Jones, the seller hereinabove referred to, his wife Elva M. Jones, and Orville Dodd. Its articles of incorporation empower it to issue not to exceed 2,250 shares of capital stock at the par value of \$100 per share. The improvements to be installed by Santiago are itemized on Exhibit No. 4, except for services, meters, and office furniture and equipment which were not taken into consideration in the preparation of that exhibit. The total estimated cost of all improvements, including the above-listed items, is \$72,081. The present and proposed systems are depicted on Exhibit No. 3. The improvements will include a 200,000-gallon welded steel tank to be installed at an elevation of approximately 400 feet,<sup>5/</sup> a booster station at the existing 460,000-gallon concrete reservoir, three pressure filters, two hypochlorinators, and larger mains. It was the opinion of the applicants' witness, an experienced hydraulic engineer, that these improvements will enable Santiago to provide water to the existing service area at all times adequate in pressure and in quantity and of the standard of purity required by the State and County Health Departments.

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<sup>4/</sup> Exhibit A on the Application.

<sup>5/</sup> See Exhibit No. 3.

The Proposed Transfer by M. E. Jones  
to Santiago Water Company of the  
Presently Existing Facilities

The seller's financial reports on file with this Commission for the years 1952, 1953 and 1954 reflect the following:

<u>Year</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Net Income</u>
1952	\$10,267.45	\$15,048.61	( <u>\$4,781.16</u> )
1953	11,215.75	12,510.74	( <u>1,294.99</u> )
1954	11,550.68	14,693.24	( <u>3,142.56</u> )

(Red Figure)

From pages 9 and 12 of Exhibit No. 5, introduced by the applicants, it appears that in 1955 Jones had estimated operating revenues of \$12,128 under present rates and expenses of \$15,674, resulting in a loss of \$3,546.

By the application herein, applicants request authority to transfer the assets of the water company from Jones to Santiago in exchange for the issuance by Santiago to Jones of the former's capital stock of a face value equivalent to the claimed net book value of Jones' assets on June 1, 1955, which is shown by Exhibit "B" on the application to have been the sum of \$63,215.93, adjusted to the date of transfer. During the hearing it was shown that over the years Jones has underdepreciated his property in the amount of approximately \$14,400. Applicants' books, as set up by their accountant, indicate a depreciation reserve as of December 31, 1955, of \$28,009 (page 19 of Exhibit No. 5). The staff determined the reserve requirement as of January 1, 1955, to be \$40,627 and estimated the adjusted depreciation reserve at December 31, 1955 to be \$42,400 (page 19 of Exhibit No. 8). Jones agreed that this latter figure should be used in calculating his net worth for the purpose of determining the amount of stock to be issued to him. The staff recommended that the transfer be authorized and that the

depreciation reserve requirement as calculated by the Commission staff, adjusted to the date of transfer, be set up on the books of Santiago.

The Commission has considered the application to transfer the assets of the water company from Jones to Santiago and is of the opinion and finds that the transfer of the operative rights and properties as proposed in the application herein will not be adverse to the public interest; that the money, property or labor to be procured or paid for by the issue of stock is reasonably required by Santiago for the purpose specified herein; and that said purpose is not, in whole or in part, reasonably chargeable to operating expenses or income. Jones will be authorized to sell the assets of the water company to Santiago in exchange for stock of Santiago equivalent in face value to the adjusted book value of the assets of the water company as of January 1, 1955, using the depreciation reserve requirement of \$40,627, both adjusted to the date of transfer.

Proposed Extension of Territory

As heretofore stated, Jones and his predecessors in interest have for many years furnished domestic water to consumers in the area in Orange County east of the City of Orange. By the application herein Jones seeks to transfer the assets of the system to Santiago. Santiago seeks a certificate of public convenience and necessity to supply domestic water to an area contiguous to the present system of Jones on the south and west, and extending to Santiago Creek on the west and the northern boundary of the Tustin Water Works area on the south.<sup>6/</sup> The total area for which Santiago seeks a certificate, including the present

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<sup>6/</sup> Exhibit "D" in the application.

Jones' system, comprises roughly 1,850 acres. The major portion of the new area is outside the Carpenter Irrigation District from which Jones now secures his water, and consequently a new source of water will be required. Jones has an option to purchase a well site.<sup>7/</sup> In order to finance the proposed well and necessary facilities Santiago is requesting that it be authorized to issue \$26,200 par value of its stock. M. E. Jones testified that he will purchase all of the stock authorized to be issued by Santiago.

The evidence shows that owners of four contemplated subdivisions have requested that Jones furnish water to their subdivisions. These contemplated subdivisions are located in the proposed service area,<sup>8/</sup> and contain a total of 77-1/2 acres to be divided into approximately 325 homesites.

The staff recommended that an adequate source of water supply be developed prior to the granting of a certificate to serve additional area.

In view of the fact that applicants have no present source of water supply with which to serve the additional area, the certificate of public convenience and necessity granted herein will be limited to the area presently being served by Jones and as set forth on Exhibit "D" attached to the application, this area being shown by a green border outlined thereon. The certificate of public convenience and necessity to serve the portion of the requested area outside the area now being served by Jones will be denied without prejudice at this time.

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<sup>7/</sup> Exhibit "D" on the application shows the location of the proposed well site.

<sup>8/</sup> See J(1), J(2), J(3), J(4), on Exhibit "D" in the application.

The Request for Authority to Increase the Rates and for Authority to Issue Stock

As heretofore stated, the record herein shows that the Jones Water Company system is inadequate in several respects including the quality of the water and the pressure in certain areas. A qualified civil engineer recommended numerous changes in the existing system, at an estimated cost of \$72,081.<sup>9/</sup> Santiago requests authority to issue its common stock at the par value of \$100 per share in an amount equivalent to the estimated cost of the improvements. M. E. Jones will purchase all of this stock. The corporation also requests authority to issue \$1,500 par value of stock to M. E. Jones as reimbursement for the cost of incorporating Santiago. The staff has recommended that the proposed improvements be installed.<sup>10/</sup> Santiago requests authority to increase the rates, if it is authorized to acquire the system, to permit it to realize a reasonable rate of return on the total investment.

Jones' presently effective rates were established by Decision No. 33815, dated January 21, 1941, in Application No. 23818. These rates are shown on page 32 of Exhibit No. 8.

Santiago requests authority to establish rates for water service as shown in Exhibit "H" attached to the application. At the hearing applicant modified the special condition as shown in Exhibit "H" to read as follows:

Multiple Service Meters

Closed to new service after (date of decision).

Blocking for quantity charges based on total consumption through meter divided by number of independent consumers on meter. Minimum charge shall be \$2.75 times the number of independent consumers. Services conditioned upon one consumer assuming in writing responsibility for entire billing of meter.

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<sup>9/</sup> Exhibit No. 4.  
<sup>10/</sup> Exhibit No. 8, page 32.



Applicants' Exhibit No. 5, page 19, shows a rate base of \$61,159 as of December 31, 1954, after deducting a depreciation reserve of \$25,426. As of December 31, 1955, the comparable figures are \$62,642 and \$28,009, respectively. On the assumption that Santiago has made the improvements sought to be effected by the end of 1956, the comparable figures for December 31, 1956, are \$136,967 and \$27,648, respectively.

The following tabulation is a comparison of applicants' to staff's 1954 recorded, 1955 estimated, and 1956 estimated results of operations under both present and proposed rates for water service:

Item	1954, Recorded		1955, Estimated			
			Present Rates		Proposed Rates	
	Applicant	Staff	Applicant	Staff (3)	Applicant	Staff (3)
Operating Rev.	\$11,550.68	\$11,551	\$12,128	\$12,548	\$25,366	\$26,317
Operating Exp.						
Maint. & Oper. Exp.		11,578		12,615		12,615
Depreciation		1,867		3,309		3,309
Taxes		255		1,243		4,208
Total Oper. Exp.	<u>14,718.24</u>	<u>13,700</u>	<u>15,674</u>	<u>17,167</u>	<u>18,836</u>	<u>20,132</u>
Net Revenue	(3,167.56)	(2,189)	(3,546)	(4,619)	6,530	6,185
Avg. Depr. Rate Base		64,965	61,900	121,679	61,900	121,679
Rate of Return		Nil	Nil	Nil	10.55%	5.08%

Item	1956, Pro Forma			
	Present Rates		Proposed Rates	
	Applicant	Staff	Applicant	Staff
Operating Revenue	\$13,298	\$13,115	\$27,849	\$27,479
Operating Expenses				
Maint. and Oper. Exp.		12,835		12,835
Depreciation		3,347		3,347
Taxes		1,243		4,504
Total Operating Exp.	<u>19,647</u>	<u>17,425</u>	<u>23,711 (1)</u>	<u>20,686</u>
Net Revenue	(6,349)	(4,310)	4,138 (1)	6,793
Avg. Depr. Rate Base	136,967 (2)	123,811	136,967 (2)	123,811
Rate of Return	Nil	Nil	3.02%	5.49%

- (1) Amended by Exhibit No. 7  
 (2) End of estimated year 1956  
 (3) Pro forma results

(Red Figure)

Considerable evidence and testimony were introduced in the record by the applicants and the staff regarding an item totaling \$5,650 for accounting, engineering, and legal expenses and fees in connection with this application. Applicants in their rate of return determination heroinbefore set forth included this amount as an operating expense to be amortized over a period of five years. The staff recommended that an amount of \$2,000 be included in operating expenses to be amortized over a period of five years. This Commission finds that the amount of \$2,000 is reasonable as the amount to be amortized over a period of five years.

On the evidence of record herein the Commission is of the opinion and finds that the proposed rate increases authorized hereinafter are justified, subject to the stated conditions. The Commission is further of the opinion, and finds that the money, property or labor to be procured or paid for by the issue of 721 shares of Santiago's capital stock of the par value of \$100 per share is reasonably required by Santiago for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

Relief Requested by the Interested Parties

On behalf of the consumers of the applicant, and by stipulation, Exhibit No. 12 was received in evidence. This exhibit contains a list of items which the interested parties believe should be included in any order issued on the subject application.

Included are:

(1) A request that the applicant establish rules and regulations and be required to post them in a public place for examination by the consumers.

Section 489 of the Public Utilities Code requires the establishment of rules and regulations which will be available for inspection in the company's place of business.

(2) A request that fire hose bibs be installed at strategic locations throughout the applicant's system for use in fire protection as well as for flushing the system.

Such bibs are not in place now and are not included in the estimated costs of this system. They will not be required. However, when Santiago completes its improvements to the system the Commission will consider this item.

(3) A request for a requirement that any rate adjustment or certification or approval of transfer of the assets be held in abeyance until applicant has complied with Chapter 7 of the Health and Safety Code of the State of California through application to the State Board of Health for a domestic water permit.

The record shows that Santiago will apply for such permit as soon as possible. It appears that the system cannot be adequately purified until the improvements are installed.

(4) A request for a requirement that in addition to the installation of improvements which will increase the pressure throughout the system, larger pipes be required for delivering water to and throughout the La Paloma area of the system.

The applicant intends to install larger pipe lines (see Exhibit No. 3). Applicants' engineer testified that the proposed pipe lines will enable the company to provide adequate pressure. There was no evidence to the contrary.

(5) A request that consumers be permitted, at their option, to demand individual meters for individual users.

There is nothing in Jones' present rules and regulations that will prevent an individual consumer on a multiple connection

served through one meter from securing a separate connection and meter. The common practice is to provide a separate connection and meter for each consumer.

(6) A request that no adjustment of rates, certification of area or approval of transfer of assets be granted until minimum improvements to bring the system of applicant up to minimum standards have been installed and inspected by engineers of the Commission.

Because of the inadequacies in service rendered by the present water system, the rate increases to be authorized hereinafter will become effective after completion of the improvement program referred to hereinbefore.

(7) A request that there be no increase in service area without development of a new water supply.

The certificate of public convenience and necessity to be granted herein will be for the area presently served by Jones. No extension of service area will be allowed without further order of the Commission.

(8) A request that there be no recovery by applicant of depreciation losses or other losses through poor operative management.

The order herein limits M. E. Jones to compensation for the net value of the company's assets, after deducting the adjusted depreciation reserve.

(9) A request for a review of the operations of applicant within a reasonable time and preferably within a year or eighteen months hereafter, for the purpose of determining adequacy of service and rate of return.

No order is required on this request as all utilities are constantly under the surveillance of this Commission.

The Commission has considered this application for a certificate of public convenience and necessity and is of the opinion that it should be granted in part, 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 or right.

One other matter requires our comments. The applicants originally requested that the corporation be authorized to issue a total of \$160,000 par value of stock for definite purposes. At the hearings the applicants' attorney agreed that Jones should only receive the adjusted book value of the assets of Jones Water Company, and he stated that the corporation desired that it be authorized to issue the entire amount of stock regardless of present need. Such an authorization is contrary to the practices of this Commission. Stock will only be authorized to the extent that there is a legitimate purpose therefor. If additional stock is required at some future time the corporation may make an application to the Commission for the proper authority.

O R D E R

M. E. Jones, doing business as Jones Water Company, a public utility, and Santiago Water Company, a corporation, having applied to this Commission for (1) an order authorizing the sale and transfer of assets from said utility to said corporation; (2) a certificate of public convenience and necessity for said corporation to serve domestic water within its proposed service area; (3) an order authorizing the sale of shares of stock by said

corporation for payment for assets to be transferred, for the improvement of facilities, for the acquisition of any properties and for the payment of costs of incorporation; and (4) an order authorizing an increase in rates; public hearings having been held and the matter having been submitted for decision,

IT IS HEREBY ORDERED as follows:

(1)(a) That M. E. Jones, doing business as Jones Water Company, may, on or after the effective date hereof and on or before September 30, 1956, transfer his assets to Santiago Water Company, a corporation, as provided for herein.

(b) That on or before the date of actual transfer M. E. Jones shall refund all customers' deposits and advances for construction which customers are entitled to have refunded. Any unrefunded deposits and advances shall be transferred to and become the obligations for refund of Santiago Water Company.

(c) That on or before the date of actual transfer M. E. Jones shall transfer and deliver to Santiago Water Company, and the latter shall receive and preserve, all records, memoranda and papers pertaining to the construction and operation of the water system properties herein authorized to be transferred.

(d) That M. E. Jones shall, within thirty days after the date of actual transfer, notify this Commission in writing of the date of the completion of the transfer authorized herein and of his compliance with the conditions hereof.

(e) That upon due compliance with all of the conditions of paragraph 1 of this order, said M. E. Jones, doing business as Jones Water Company, shall stand relieved of all further public utility obligations and liabilities in connection with the operation of the public utility water system herein authorized to be transferred.

(2) That if the authority herein granted to transfer is exercised, a certificate of public convenience and necessity be and it is hereby granted to Santiago Water Company, a corporation, to acquire, construct, operate and maintain a public utility water system for the distribution and sale of water within the territory outlined in green on Exhibit "D" attached to the application, subject to the following conditions:

- (a) No additional extensions shall be made to said certificated area without further order of this Commission.
- (b) Santiago Water Company shall obtain a water supply permit as required by the Pure Water Law of the California Health and Safety Code. A copy of this permit shall be filed with this Commission within ten days after the acquisition thereof.

(3) That if the authority herein granted to transfer is exercised, Santiago Water Company be and it is authorized and directed to file 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 by said corporation, 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 upon five days' notice to the Commission and to the public after filing as hereinabove provided.

(4) That if the authority herein granted to transfer is exercised, Santiago Water Company shall, within thirty days after the date of actual transfer, submit to the Commission the proposed accounting entries by which the properties will be distributed to the books of account of said corporation.

(5) That Santiago Water Company, in payment for said heretofore described assets, may issue, on or after the effective date hereof and on or before September 30, 1956, one share of its \$100 par value

stock for each \$100 of the net assets of M. E. Jones, using January 1, 1955 fixed capital of \$83,104 and a related reserve requirement of \$40,627, both adjusted to the date of transfer.

(6) That Santiago Water Company may issue, on and after the effective date hereof and on or before September 30, 1956, not to exceed 721 shares of its \$100 par value stock to M. E. Jones for cash at its par value for the purpose of providing funds with which to finance the costs of improvements as set forth in Exhibit No. 4 of this proceeding.

(7) That within not to exceed one year after the date of actual transfer, Santiago Water Company shall complete the installation of the improvements and additions itemized in Exhibit No. 4 of this proceeding and within five days following completion shall notify this Commission in writing thereof. Within sixty days after the date of actual transfer and every sixty days thereafter until completed, Santiago Water Company shall submit in writing to this Commission a report of its progress in completing the installation of the improvements and additions herein.

(8) That Santiago Water Company is authorized to file, in conformity with the provisions of General Order No. 96, within thirty days after completion of the above-referred-to improvements and additions, the rate schedule set forth in Appendix B attached hereto, to become effective on five days' notice to the Commission and to the public.

(9) That Santiago Water Company shall file with the Commission monthly reports as required by General Order No. 24-A, which order in so far as applicable is made a part hereof.

(10) That within sixty days after the date of actual transfer, Santiago Water Company shall file four copies of a comprehensive map drawn to an indicated scale not smaller than 600 feet to the



inch, delineating by appropriate markings the various tracts of land and the territory served, the principal water production, storage and distribution facilities, and the location of the various water system properties.

(11) That Santiago Water Company shall base the future accruals to the depreciation reserve upon spreading the original cost of the plant, less estimated future net salvage and depreciation reserve, over the estimated remaining life of the plant, and shall use the depreciation rates shown in Exhibit No. 8, page 19. These rates shall be used until a review indicates that they should be revised. Santiago Water Company shall review the depreciation rates 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 the Commission.

IT IS FURTHER ORDERED that except as to those matters specifically authorized by the order herein, the application is denied without prejudice.

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

Dated at San Francisco, California, this 16<sup>th</sup> day of July, 1956.

John E. Mitchell  
President

Justus J. Guesel

Roy Colwell

William J. Dool

R. Hardy  
Commissioners

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of El Modino, Orange County.

RATES

Quantity Rates:	<u>Per Meter per Month</u>
First 500 cu.ft. or less .....	\$ 1.25
Next 1,500 cu.ft., per 100 cu.ft.....	.20
Over 2,000 cu.ft., per 100 cu.ft.....	.15
 Minimum Charge:	
For 5/8 x 3/4-inch meter .....	\$ 1.25
For 3/4-inch meter .....	2.00
For 1-inch meter .....	3.00
For 1-1/2-inch meter .....	6.00
For 2-inch meter.....	9.00
For 3-inch meter .....	18.00

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

SPECIAL CONDITION

Service to more than one residence through a single meter will not be available to new customers beginning service after the effective date of this schedule. Charges for existing multiple-residential service through one meter will be computed by dividing the total consumption by the number of residences connected, and then applying to each prorated consumption the above rates and minimum charge for a 5/8 x 3/4-inch meter. The responsibility for payment of the total charges for water furnished to all of the residences connected to the meter must be assumed in writing by the applicant for such multiple service.

Schedule No. 9FC

FLAT RATE CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished for building construction.

TERRITORY

The unincorporated community of El Modino, Orange County.

RATE

Per Month

For each separate service connection ..... \$2.75

APPENDIX B

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of El Modino, Orange County.

RATES

Quantity Rates:	Per Meter per Month
First 500 cu.ft. or less .....	\$ 2.65
Next 1,000 cu.ft., per 100 cu.ft.....	.42
Next 1,000 cu.ft., per 100 cu.ft.....	.36
Over 2,500 cu.ft., per 100 cu.ft.....	.30

Minimum Charge:

For 5/8 x 3/4-inch meter .....	\$ 2.65
For 3/4-inch meter .....	4.00
For 1-inch meter .....	5.50
For 1-1/2-inch meter .....	8.00
For 2-inch meter .....	12.00
For 3-inch meter .....	20.00

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