

**ORIGINAL**Decision No. 53502

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of LUCERNE VISTA WATER CO. for )  
authorization to receive certif- )  
icate of convenience and )  
necessity and for order author- )  
izing issue of stock. )

Application No. 37391

Lehman and Van Buskirk by Wayne L. Van Buskirk,  
for applicant;  
William Stava, for O. Jacobs; Othal P. Wells,  
interested parties;  
Charles W. Drake, for the Commission staff.

O P I N I O N

Lucerne Vista Water Co., hereinafter referred to as applicant, is a California corporation formed on March 1, 1955, for the purpose, among others, of furnishing domestic water. By the application herein, filed on October 10, 1955, as amended by an amendment filed on March 28, 1956, applicant seeks (1) a certificate of public convenience and necessity to construct and operate a public utility water system in a 220-acre plot of land described as the E $\frac{1}{2}$  of Sec. 13, T.4 N., R. 1 W., S.B.B. & M., omitting therefrom the E $\frac{1}{2}$  of the NE $\frac{1}{4}$  of the NE $\frac{1}{4}$  and also omitting the S $\frac{1}{2}$  of the SE $\frac{1}{4}$  (See Exhibit No. 2); (2) to establish rates; and (3) to issue stock.

Public hearings on the application were held in Los Angeles on April 20, 1956, and June 15, 1956, before Commissioner Ray E. Untereiner and Examiner Kent C. Rogers. Prior to the first hearing, notice thereof was published as required by this Commission. There were no protests. The representative of a proposed water company which intends to serve north of Old Woman Springs Road, the northern boundary of applicant's proposed service area, attempted to secure a

stipulation limiting applicant's service area to territory south of said road, or a stipulation that applicant will not protest the filing of an application by said proposed water company for authority to serve north of said road. No agreement was entered into relative to said requests.

General Information

Applicant filed its articles of incorporation with the Secretary of State of California on March 1, 1955. Its first directors were stated to be George C. Fortner, Wayne L. Van Buskirk, M. Lewis Lehman, Willis O. Prouty and Georgiana Iverson. Its present officers are M. Lewis Lehman, president; Willis O. Prouty, vice president; and Wayne L. Van Buskirk, secretary. By its articles of incorporation applicant is authorized to issue 20,000 shares of stock of the par value of \$10 per share, and of the aggregate par value of \$200,000.

Proposed Service Area

The proposed service area will comprise 220 acres in San Bernardino County. State Highway 18, the highway through Lucerne Valley, passes through the southwest corner of the tract. The area slopes upward toward the southwest and there is a difference in elevation between the highest and lowest points of about 60 feet. The soil is sandy but not loose, and the applicant's witness forecast a high water usage if the landowners plant lawns or trees. Meters will be installed to induce water conservation. The entire service area is owned by four developers, George C. Fortner, M. Lewis Lehman, Willis O. Prouty and Wayne L. Van Buskirk. They have filed a subdivision map of Tract No. 4735 comprising the NW $\frac{1}{4}$  of the SE $\frac{1}{4}$  of Sec. 13, and have been authorized to sell homesites therein.<sup>1</sup> This tract

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<sup>1</sup> Although the record is not clear, it appears that the four named individuals have formed a separate corporation which is the owner of that portion of the proposed service area known as Tract No. 4735.

contains 40 acres subdivided into 68 lots.<sup>2</sup> When the proposed service area is completely subdivided and improved there will be a total of 200 homes. At the time of the final hearing herein two homes were in the course of construction in Tract No. 4735, and a water system had been installed by the subdivider. This system, which includes two wells, is to be transferred to the applicant in exchange for the issuance of shares of stock to the landowners (or stockholders in the landowning corporation) in the following amounts:

George C. Fortner	900 shares
M. Lewis Lehman	900 shares
Willis O. Prouty	600 shares
Wayne L. Van Buskirk	600 shares

#### Description of the Water System

There are two wells in the proposed service area and space for a third is being reserved.

Well No. 1 is on Lot No. 1 in the extreme northeast corner of Tract No. 4735. It is equipped with a 15-horsepower electric motor and a turbine pump.<sup>3</sup> This well has been tested at 150 gallons per minute (Exhibit G on the application). There is a 2,000-gallon hydropneumatic tank at this well site.

Well No. 2 is located in the northeast corner of the proposed service area and approximately 1,900 feet from Well No. 1. It is equipped with an 80-horsepower propane or butane gas engine but no pump at the present time. A pump will be purchased by the applicant as soon as required. There is a 10,000-gallon hydropneumatic tank at this well site. The well has been tested at 300 gallons per minute (Exhibit H on the application).

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<sup>2</sup> See Exhibit B on the application.

<sup>3</sup> Shortly prior to the last day of hearing the pump was on Well No. 2 and there was no motor at Well No. 1. The pump was designed for Well No. 1.

Applicant's witness testified that the maximum hourly consumption in Tract No. 4735 is estimated to be 2.5 gallons per minute per consumer.

The San Bernardino County Health Department has found water from Well No. 2 fit for human consumption but has not tested the water in Well No. 1.

There is a 6-inch, 12-gauge, double-dipped welded steel pipe from Well No. 2 to Well No. 1. A system of 6- and 4-inch double-dipped welded steel pipe mains extends from Well No. 1 to points in Tract No. 4735. The mains are installed on the rear of the lots and the applicant has been granted easements therefor.<sup>4</sup> All services are to be metered. Eight fire hydrants have been installed.

From a review of the record it appears that the water supply, storage and distribution facilities are adequate for the initial operation. It does not appear that Well No. 1 has the capacity to supply an adequate amount of water for Tract No. 4735 when completely developed and occupied. The staff recommended that the applicant, if granted a certificate, be required to install a pump in Well No. 2 as soon as possible.

Rates:

Applicant proposes that all services shall be metered and that the following rates be authorized.

Monthly Quantity Rates for Residential Consumers:

First	700 cu.ft. or less	\$2.75
Next	1,300 cu.ft., per 100 cu.ft.	.30
Next	3,000 cu.ft., per 100 cu.ft.	.25
Over	5,000 cu.ft., per 100 cu.ft.	.20

The applicant and the staff each prepared an estimate of the results of operation at the end of three years at the proposed rates. Each estimate was based on 50 consumers at that time and assumed that none of the pipe was installed pursuant to the main extension rule.

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<sup>4</sup> Exhibits Nos. 4 and 4a.

The applicant used two bases: (1) an average water usage of 1,310 cubic feet per month per consumer, resulting in an annual cost to each consumer of \$55; and (2) an average use per consumer of 1,520 cubic feet per month, resulting in an average annual cost to each consumer of \$62.50. These assumptions were based, the applicant's witness said, on his expert knowledge and on a comparison of water usage and rates in Bloomington. The staff's estimate used an average monthly consumption of 1,600 cubic feet per consumer, resulting in a cost of \$64.10 per consumer per year. The staff's witness based his water usage assumption on the water usage in the Victorville systems of the Pacific Water Company, and his estimated results of operation used the costs developed by the applicant in its report (Exhibit No. 3), with certain exceptions.

The Forecast of Results of Operation  
in 1959 as Developed by the Applicant

	<u>At \$55 per Year</u>	<u>At \$62.50 per Year</u>
Revenues	\$2,750	\$3,125
Expenses		
Pumping	\$1,150	\$1,150
Distribution	180	180
Customer Acctg Exp.	480	480
Gen. and Admin.	450	450
Depreciation	990	990
Taxes	410	410
Total Expenses	<u>3,660</u>	<u>3,660</u>
Net Income	\$ (910)	\$ (535)

(Red Figure)

The applicant's estimated rate base in the third year of operation (from page 7 of Exhibit No. 3), with no allowance for materials and supplies or working cash, and assuming the plant is complete, is \$29,887.

If the service area development is financed by stock issues the applicant estimates that when fully developed in 1961 with

200 customers, if the average annual revenue per consumer is \$55 the rate of return will be 3.2 per cent, and if the average annual revenue per consumer is \$62.50 the rate of return will be 4.7 per cent. If the service area is developed by customers' advances the applicant estimates that the rate of return will be 5.6 and 8.2 per cent, respectively.<sup>5</sup>

The staff utility plant value differed from the applicant's in several respects. The staff placed a value of \$536 on the well site properties, whereas the applicant valued these properties at \$2,900. The staff's estimate was based on the original cost of the land plus the cost of the work done in improving the property. The applicant took the asking price (\$1,450) of the lot in Tract No. 4735 on which the well is located and used the same value for the land at Well No. 2. The staff's method is the proper method. In addition the staff fixed the cost of the transmission mains at \$400 less than the applicant. The staff added \$100 to the rate base for materials and supplies and \$370 as a working cash allowance. It estimated applicant's rate base, less depreciation, in the third year of operation at \$27,687.

The estimated expenses as developed by the staff were also at variance with those developed by the applicant. The staff estimated power and pumping expenses at \$920 per year and transmission and distribution expense at \$80 per year. The applicant estimated these charges at \$1,150 and \$180 per year, respectively.

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

The Estimated Results of Operation in  
the Third Year as Developed by the Staff

Operating Revenues		\$3,205
Operating Expenses		
Pumping	\$920	
Distribution	80	
Customers Acctg Expenses	450	
Gen. and Admin.	450	
Depreciation	939	
Taxes	<u>405</u>	
Total Expenses		3,244
Net Income		\$ (39)
Depreciated Rate Base	\$27,687	
Rate of Return		-%

(Red Figure)

The staff has recommended that the applicant be required to establish rates which would enable it to earn a just and reasonable rate of return.

At the request of the presiding Commissioner the applicant prepared an exhibit<sup>6</sup> setting forth rates necessary to enable it to realize returns of 6, 7 and 8 per cent, using the estimated expenses and rate base in the year 1959 as developed by the Commission staff (Exhibit No. 6).

However, the rate schedules developed by applicant in said exhibit were found to produce revenues insufficient to realize the percentage rates of return indicated. In order to realize a return of 6 per cent in 1959 it will be necessary for the applicant to establish the following rates:

First	500 cu.ft. or less	\$3.50
Next	1,500 cu.ft., per 100 cu.ft.	.55
Next	3,000 cu.ft., per 100 cu.ft.	.45
Over	5,000 cu.ft., per 100 cu.ft.	.35

We have reviewed the record herein and are of the opinion that to permit applicant to establish the rates it has proposed will

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<sup>6</sup> Exhibit No. 7

jeopardize its existence and will cause it to expend money for the preparation and presentation of an application for authority to increase its rates. On the other hand, a 6 per cent rate of return is not excessive. Upon the evidence of record herein we are of the opinion and find that the rates set forth in Appendix A herein, which will result in a rate of return of 6 per cent, are just and reasonable and their establishment will be required.

#### Financing

Applicant requests authority to issue 900 shares of stock to George C. Fortner, 900 shares to M. Lewis Lehman, 600 shares to Willis O. Prouty, and 600 shares to Wayne L. Van Buskirk, to cover the costs of the system in Tract No. 4735, the costs of completing that system, property for a third well, and working cash, the total of which applicant has estimated to be \$36,862.

#### Conclusion

After consideration of the record herein the Commission is of the opinion and finds that public convenience and necessity require the granting of the certificate as requested. This certificate is subject to the following provision of law:

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.

The action taken herein shall not be construed to be a finding of the value of the property herein described.

The Commission is also of the opinion that the rates shown in Appendix A which will yield a return of 6 per cent are just and reasonable; that the money, property or labor to be procured or paid for by the issue of stock is reasonably required for the purpose set



forth herein and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income.

O R D E R

Application having been filed, public hearing having been held thereon, and the Commission having made the foregoing findings and based upon said findings,

IT IS HEREBY ORDERED:

1. That Lucerne Vista Water Co., a corporation, be and it hereby is granted a certificate of public convenience and necessity to construct and operate a public utility water system in the area described hereinabove.
2. 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.
3. That applicant shall procure from San Bernardino County Health Department a statement showing that the water from Well No. 1 has been approved for human consumption. This statement shall be filed with the Commission not more than ten days after the effective date of this order.
4. That before the time when 45 homes are occupied in Tract No. 4735, the applicant shall install pumping equipment on Well No. 2 which will permit delivery of water from this source into the system serving the tract and shall notify the Commission in writing not more than thirty days after completion of such installation.

5. That the applicant shall file within forty days after the system is placed in operation as herein authorized, 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 territory served, the principal water production storage and distribution facilities, and the location of the various properties of the applicant.

6. That beginning with the year 1956, applicant shall determine the depreciation expense by multiplying the depreciable fixed capital by a rate of 3.35 per cent. This rate shall be used until review indicates that it should be revised. Applicant shall review the depreciation rate using the straight-line remaining life method whenever substantial changes in depreciable fixed capital occur and at intervals of not more than five years, and revise the above rate in conformance with such reviews. Results of such reviews shall be submitted to the Commission.

7. That after the effective date hereof and on or before December 31, 1956, applicant may issue 900 shares of its \$10 par value capital stock to George C. Fortner, 900 shares of its \$10 par value capital stock to M. Lewis Lehman, 600 shares of its \$10 par value capital stock to Willis O. Prouty, and 600 shares of its \$10 par value capital stock to Wayne L. Van Buskirk, for the purpose indicated in the foregoing opinion.

8. That applicant shall file with this Commission monthly reports, as required by General Order No. 24-A, which order, in so far as applicable, is hereby made a part of this order.

9. That the authority herein granted shall expire if not exercised within one year from the date hereof.

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

Dated at San Francisco, California, this 31st day of July, 1956.

Arthur E. Mitchell  
President  
Paul J. [unclear]  
[unclear]  
B. Hardy

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Commissioners

Commissioner.....Justus E. Craemar, 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

The unincorporated area approximately one mile southeast of the community of Lucerne Valley, San Bernardino County.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 500 cu.ft. or less .....	\$3.50
Next 1,500 cu.ft., per 100 cu.ft. ....	.55
Next 3,000 cu.ft., per 100 cu.ft. ....	.45
Over 5,000 cu.ft., per 100 cu.ft. ....	.35

Minimum Charge:

For 5/8 x 3/4-inch meter ..... \$3.50

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