

ORIGINAL

Decision No. 53808

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 CITIZENS SUBURBAN COMPANY, a California
 corporation, for a certificate of public
 convenience and necessity authorizing
 Applicant to furnish a public utility
 water service in certain portions of
 Sacramento County, California, to
 exercise franchise rights in connection
 therewith, and to issue and sell its
 capital stock.)

Application No. 37236
 (amended)

Orrick, Dahlquist, Herrington & Sutcliffe by
Warren A. Palmer for applicant.
 Downey, Brand, Seymour & Rohwer by
Harry B. Seymour, and Vaughan, Paul & Lyons
 by Reginald L. Vaughan for Natomas Water
 Company, protestant.
Robert E. Hatch for Cordova Water Company,
W. P. Dwyer for Heckes & Hurst, interested
 parties.
George F. Tinkler and W. B. Stradley for the
 Commission staff.

O P I N I O N

Applicant's Request

Citizens Suburban Company, a California corporation and subsidiary of Citizens Utilities Company, a Delaware corporation, on August 22, 1955, filed the above-entitled application and on November 29, 1955 and June 13, 1956, filed amendments thereto, finally requesting a certificate of public convenience and necessity to construct, operate and maintain a water system in an unincorporated area of approximately 220 acres in Sacramento County, located on the south side of U. S. Highway 50 south of the community of Mills, embracing a portion of Natomas Consolidated Subdivision No. 4. Attached to the Second Amendment to Application as Exhibit B-1 is a map of the area.

In the original application the applicant sought a certificate of public convenience and necessity to serve an area located adjacent to the junction of Coloma Road and U. S. Highway 50 within which area Cordova Park Subdivision, Cordova Gardens Subdivision and Cordova Meadows Subdivision are located.

At the first day of hearing Natomas Water Company appeared as a protestant and later filed Application No. 37462 for territory which included this area originally requested by the applicant. The dispute as to which utility would serve the original area was finally resolved by an agreement between them dated March 15, 1956. Applicant withdrew its original request and Natomas agreed not to protest the area covered by the second amendment. The original area was certificated to Natomas by Decision No. 53448 on July 16, 1956.

By this second amendment applicant also seeks:

1. Authority to exercise the rights and privileges under a county franchise being applied for by applicant if granted prior to the hearing on this application.
2. Approval of a water service agreement with S & J Homes; the subdivider, dated May 7, 1956, a copy of which is attached to the second amendment as Exhibit C-1:
3. Authority to issue and sell 350 shares of common stock at par, for cash, to Citizens Utilities Company, a Delaware corporation.
4. To establish the rates set forth in Exhibit E-1 to the second amendment.

Public Hearing

After due notice, three days of public hearing, on September 22, 1955, December 5, 1955 and July 20, 1956, were held on this application before Examiner M. W. Edwards in Sacramento. Our primary concern is with the third day of hearing on the second amendment because the first two days of hearing were concerned with the original application and the first amendment thereto regarding the

area from which the applicant withdrew. At this third day of hearing applicant presented six exhibits (Exh. Nos. 44-49) through two witnesses in support of its final request. The Commission staff, represented by engineers of the Hydraulic Section, cross-examined the witnesses for the purpose of developing facts in the record that would be of aid to the Commission in deciding this matter. The matter was submitted for decision at the close of the third day of hearing. No one objected to the proposed service under the second amendment.

Cordova Towne Subdivision

A portion of the proposed service area is now in the process of subdivision and development. The S & J Homes, a partnership, is the subdivider and is engaged in developing a tract within the boundaries of the proposed service area known as Cordova Towne Subdivision. The first unit of the subdivision contains 91 lots. It is expected to be fully developed and the homes all occupied within a year. Eventually, it is expected that the subdivision will consist of 800 to 1,000 homes and will require 3 to 5 years to complete.

Water Service Agreement

The water service agreement requires the subdivider to construct and install the water distribution system (including service connections, valves, fittings, and fire hydrants) required to serve Unit No. 1 of the subdivision and to advance \$10,000 to the applicant and convey a well site to enable applicant to construct and install the well and appurtenant pumping facilities required to serve Unit No. 1. The water system being installed by the subdivider consists of 700 ft. of 8-inch, 3,250 ft. of 6-inch; 1,200 ft. of 4-inch and 75 ft. of 2-inch asbestos-cement mains in accordance with the plans shown by Exhibit D-1 attached to the second amendment. The well is 375 feet deep and the pump will be driven by a 50 hp motor. A 5,000-gallon pressure tank will be provided to maintain a water pressure of 50 pounds per square inch.

Upon the completion of 91 homes the agreement requires the applicant to refund, without interest, to the subdivider the \$10,000 deposit. Also the agreement provides that the applicant shall make refund payments of the actual cost of the water distribution system in accordance with Rule and Regulation No. 15 C-2-b of its proposed water main extension rule and regulation. Such proposed rule requires that applicant refund over a period of not more than twenty years, 22 per cent of the estimated annual revenue from each customer to the subdivider.

The water service agreement also provides that when further homes are constructed in the subdivision and extension of the water system is required the applicant will design and the subdivider will construct the distribution portion of the required extension of facilities as is provided for in applicant's proposed main extension, a copy of which is shown as Exhibit A of the subject agreement. The applicant is obligated to construct and install any additional wells and appurtenant pumping facilities required to serve such further extension.

Financing of System

Applicant proposes to sell 350 shares of its common stock at par value of \$100.00 per share to its parent organization to cover the following items:

| | |
|--|---------------|
| Cost of First Well, Pump, Land and Buildings..... | \$14,500 |
| Working Capital and Miscellaneous..... | 5,500 |
| Cost of Second Well, Pump, Land and Buildings..... | <u>15,000</u> |
| Total | \$35,000 |

Applicant proposes to sell the stock as and when the money is required and desires a period of one year in which to complete the sale.

While applicant's request for \$5,500 to cover working capital and miscellaneous items appears high, the applicant pointed out that there may be considerable revenue lag initially for the new utility and consequently it will need a sizable amount of working cash.

Also the legal expenses will be heavy because of the extended nature of the proceedings leading up to the obtaining of this certificate.

The organization fees will be about \$200.00.

Economics of Proposed System

Applicant's Exhibit No. 48 shows a total estimated investment of \$32,808 to serve the first unit of 91 lots, annual revenue of \$3,444, operating expenses of \$2,898 and annual net revenue of \$546, which is equivalent to a rate of return of approximately 1.7 per cent. When the 800 residences are completed applicant estimates the total investment at \$202,333, the annual revenue at \$30,268, the operating expenses at \$22,938 and the annual net revenue at \$7,330, which is equivalent to a rate of return of approximately 3.6 per cent.

The basic rate proposed by the applicant is \$3.00 per month for each residential unit having a lot area of 8,500 sq. ft. or less; \$3.25 per month for areas from 8,500 to 10,000 sq. ft.; plus 30 cents per 1,000 sq. ft. for areas over 10,000 sq. ft. Optional meter rates are suggested of \$2.50 for the first 1,000 cu. ft. or less plus 20 cents per 100 cu. ft. for the next 4,000 cu. ft., with a terminal rate of 15 cents per 100 cu. ft. for usage beyond 5,000 cu. ft. per month. The minimum meter charges are proposed to start at \$2.50 for a 5/8 x 3/4-inch meter and graduate upward with size.

Franchises

Applicant is seeking a franchise from the County of Sacramento to cover a large area which includes the area requested in this proceeding. At the time of the hearing this franchise had not been secured; therefore, applicant stated it will file a supplemental application with the Commission requesting authority to

exercise the rights and privileges to be granted to applicant under such franchise.

Applicant's witness testified that this 220-acre area is now covered by a franchise granted to Cordova Water Company by Ordinance No. 479 of the Board of Supervisors of the County of Sacramento. He also testified that the franchise rights have been transferred to it by Natomas Water Company, successor to Cordova Water Company. Temporarily we will authorize the applicant to exercise such franchise, pending the procurement by applicant of an appropriate county franchise in its own name.

Miscellaneous Items

Applicant states that to the best of its knowledge and belief there are no public utilities with which it is likely to compete in this area. With regard to the purity of the water, applicant's witness testified that this matter has been discussed with members of the state and county boards of health and they have allowed drilling of the first well to proceed. To prevent surface and near surface seepage from entering the well, the first 80 feet is cement grouted between the 20-inch outer casing and the 14-inch well casing. The subdivider's general office in the tract will represent the applicant in dealing with the customers concerning such items as applications for service, payment of bills and receipt of complaints. Applicant will use personnel now connected with the Citizens Utilities Company of California in North Sacramento to handle the service work. Such personnel will be available on call any time of the day or night.

Findings and Conclusions

Applicant's proposed water agreement includes, in numbered paragraph 3.5, a provision that the utility will not voluntarily make meter rates effective within a specified time. Such provision is inappropriate and will be specifically excluded from the authorization hereinafter granted.

After considering the application as amended it is the finding and conclusion of the Commission that the proposed water system is needed and is in the public interest. Applicant's proposed method of financing appears reasonable and will be authorized. There was no opposition to the proposal under the second amendment to the application. Except as noted, the proposed rate levels appear reasonable based on the estimated total cost to render the proposed water service and they will be authorized. The proposed flat rate for swimming pools is not authorized and the rate proposed for additional residential units on the same premises is reduced somewhat.

While the earnings from the rates as authorized appear to yield less than a full return during the initial development period, it is expected that they are high enough to cover operating expenses, including depreciation.

The Commission finds that public convenience and necessity require the construction, operation and maintenance of a public utility water system by Citizens Suburban Company in an unincorporated area of approximately 220 acres located on the south side of U. S. Highway 50 south of the community of Mills, embracing a portion of Natomas Consolidated Subdivision No. 4, as delineated in Exhibit B-1 attached to the second amendment to the application and require the exercise of appropriate franchise rights, and that the portion of the water system to be paid for by the issuance of 350 shares of stock herein authorized is reasonably required by the Citizens Suburban Company for the purposes herein stated, which purposes are not in whole or in part reasonably chargeable to operating expenses or income.

The certificate of public convenience and necessity issued herein is 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 or to a political subdivision thereof as the consideration for the issuance of such franchise, certificate of public convenience and necessity or right.

When the applicant has filed a supplemental application herein to which is attached a copy of the franchise issued by the Board of Supervisors of the County of Sacramento to cover the large area requested in this proceeding, the Commission will issue a certificate of public convenience and necessity authorizing applicant to exercise such franchise upon such terms and conditions as the Commission may designate.

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 HEREBY ORDERED that a certificate of public convenience and necessity be, and it is, granted to Citizens Suburban Company to construct, operate and maintain a public utility water system for the distribution and sale of water in an unincorporated area of approximately 220 acres in Sacramento County, located on the south side of U. S. Highway 50 south of the community of Mills, embracing a portion of Natomas Consolidated Subdivision No. 4, as delineated in Exhibit B-1 attached to the second amendment to the application, and to exercise temporarily, pending obtaining by applicant of suitable franchise, the applicable portion of the franchise, rights and privileges granted by the County of Sacramento under Ordinance No. 479, dated July 14, 1954, to Cordova Water Company covering this 220-acre area. The certificate of public convenience

and necessity herein granted to Citizens Suburban Company shall be subject to the condition that the company shall not make extensions into other territory, whether or not contiguous to any of the certificated area described herein, without authority first having been obtained from this Commission.

IT IS HEREBY FURTHER ORDERED as follows:

1. Applicant is authorized to file after the effective date of this order, the rates set forth in Appendix A attached to this order, and a tariff service area map acceptable to this Commission, together with rules governing relations with its customers, which rules shall be applicable both to the area certificated herein and the area certificated by Decision No. 53807 in Application No. 38126, which decision is being issued concurrently herewith, all to be filed 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, and shall be in effect before service is first rendered to the public under the rates and rules authorized herein.

2. Applicant shall file, within thirty days after the system is first placed in operation under the rates and rules authorized herein, 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 and to be served by future contemplated extensions; the principal water production, storage and distribution facilities and location of the various water system properties of applicant herein being certificated.

3. Applicant shall notify this Commission in writing, of the date service is first rendered to the public under the rates and rules authorized herein, within ten days thereafter.

4. 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.

5. If the authorization herein granted is exercised, applicant shall procure and dedicate to water utility purposes the lots or areas on which the wells are located and easements or permits where pipeline mains are located in lots, other than in streets, and shall file within thirty days after the system is first placed in operation under the rates and rules authorized herein, one copy of each appropriate document showing such procurement, dedication, easement or permit.

6. Applicant is authorized to carry out the terms and conditions of the water service agreement with S & J Homes, the subdivider, dated May 7, 1956, substantially in accordance with that shown by Exhibit C-1 attached to the second amendment to application, except that the portion of numbered paragraph 3.5, under which the utility would be precluded from voluntarily making meter rates effective within the period designated, is specifically excluded from the authority herein granted.

7. Applicant, after the effective date hereof and on or before December 31, 1957, may issue at par value of \$100 per share 350 shares of its common stock and sell the same to Citizens Utilities Company to pay for portions of the water system being certificated herein.

8. Applicant shall file a report, or reports, of the issued said shares of stock as required by General Order No. 24-A, which order, in so far as applicable, is made a part of this order.

9. Upon the filing by applicant of a supplemental application to which is attached a copy of the franchise issued by the Board of Supervisors of the County of Sacramento as hereinabove provided, the Commission will issue a certificate of public convenience and necessity authorizing it to exercise such franchise upon such terms and conditions as the Commission may designate.

10. The authorization herein granted will 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 25th day of SEPTEMBER, 1956.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]

Commissioners

APPENDIX A
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Schedule No. CO-1

Cordova Towne Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Cordova Towne adjacent to U. S. Highway 50, approximately 13 miles east of the City of Sacramento, Sacramento County.

RATES

| | <u>Per Meter per Month</u> |
|---------------------------------------|--------------------------------|
| Quantity Rates: | |
| First 1,000 cu.ft. or less | \$ 2.50 |
| Next 4,000 cu.ft., per 100 cu.ft..... | .20 |
| Over 5,000 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 | 6.00 |
| For 1-1/2-inch meter | 12.00 |
| For 2-inch meter | 16.00 |
| For 3-inch meter | 29.00 |
| For 4-inch meter | 45.00 |
| For 6-inch meter | 85.00 |

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

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Schedule No. CO-2R

Cordova Towne Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

The unincorporated area known as Cordova Towne adjacent to U. S. Highway 50, approximately 13 miles east of the City of Sacramento, Sacramento County.

RATES

| | <u>Per Service Connection per Month</u> |
|---|---|
| 1. For a single family residence including premises having an area of: | |
| 8,500 sq.ft. or less | \$3.00 |
| Over 8,500 sq.ft. to 10,000 sq.ft..... | 3.25 |
| Over 10,000 sq.ft., for each additional 100 sq.ft. of area..... | .03 |
| a. For each additional residential unit served from the same service connection | 1.00 |
| b. For each evaporative type cooler, in addition to regular flat rates, during the 4-month period June through September: | |
| Circulating type..... | .20 |
| Noncirculating type | .50 |

SPECIAL CONDITIONS

1. The above flat rate charges apply to service connections not larger than one inch in diameter.

2. All service not covered by the above classification will be furnished only on a metered basis.

3. A meter may be installed at option of utility or customer for above classification in which event service will thereafter be rendered on the basis of Schedule No. CO-1, General Metered Service.

Schedule No. 5

All Tariff Areas

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

Within all tariff areas served by the utility.

RATES

| | <u>Per Hydrant per Month</u> |
|--|----------------------------------|
| For wharf type hydrants owned by the utility | \$2.00 |
| For wharf type hydrants owned by the public authority .. | 1.50 |
| For standard type hydrants owned by the utility | 3.50 |
| For standard type hydrants owned by the public authority | 2.25 |

SPECIAL CONDITIONS

1. Hydrants owned by the utility will be installed, maintained, painted, and inspected at the expense of the utility.
2. Hydrants owned by the public authority will be installed, maintained, painted, and inspected at the expense of the public authority.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.
4. The above rates include use of water for fire protection and for no other purpose. Quantities of water delivered through fire hydrants for any other purpose will be estimated or measured and charges will be made at the quantity rates under the applicable general metered service schedule.
5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.