

ORIGINALDecision No. 54104

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 MIRA LOMA WATER COMPANY, a corpora-)
 tion, for an order authorizing the)
 issue of stock, for a certificate)
 of public convenience and necessity)
 to acquire and maintain a water)
 system, and for an order fixing)
 water rates.)

Application No. 37512

Irwin M. Fulop, for applicant;
Charles W. Drake, for the Commission staff.

O P I N I O N

Mira Loma Water Company, hereinafter referred to as applicant, is a California corporation formed on July 6, 1955, for the purpose, among others, of furnishing domestic water. By the application herein, filed on November 23, 1955, and amended by amendments filed on June 13, 1956, and July 9, 1956, applicant seeks (1) a certificate of public convenience and necessity to construct and operate a public utility water system in a tract of land comprising approximately 1,200 acres in Sections 4 and 9, Township 2 south, Range 6 west, S. B. B. & M., United States Land Survey, County of Riverside, California; (2) to establish rates; (3) to issue stock; (4) to issue bonds; and (5) for authority to deviate from the main extension rule for the first three years of operation.

A public hearing on the application was held in Mira Loma on July 5, 1956, and in Los Angeles on July 9, 1956, before Examiner Kent C. Rogers. At the conclusion of the last day of hearing the matter was submitted subject to the filing by applicant of Exhibit No. 11. This exhibit was filed on July 25, 1956, and the

matter is ready for decision. Prior to the first day of hearing, notice thereof was published and posted as required by this Commission. There were no protests.

General Information

Applicant filed its articles of incorporation with the Secretary of the State of California on July 11, 1955. Its first directors were stated to be Herbert Heftler, Irwin M. Fulop, Steven Grossbard, Berne Rolston, and Alice Anderson. Its present officers are Herbert Heftler, president; Steven Grossbard and Irwin M. Fulop, vice presidents; and Berne Rolston, secretary-treasurer. By its articles of incorporation it is authorized to issue 20,000 shares of no par value stock.

The Proposed Service Area

The proposed service area is bounded on the north by Riverside Road, on the south by the southern boundary of Section 9, which is a line approximately $\frac{1}{2}$ mile south of U. S. Highway No. 60, on the west by Etiwanda Avenue, and on the east by Bain Street; and, as more particularly set forth on the map attached to the original application as Exhibit C. The area slopes gently upward from the south to the north. The soil is sandy.

The entire service area was acquired by Heftler Construction Company, a New Jersey corporation, in March 1955. It plans to construct thereon approximately 5,000 homes or their equivalents in shops and light manufacturing businesses. Units Nos. 1 and 2, comprising 50 acres, were subsequently improved and transferred to Runson, Inc., a California corporation, a wholly owned subsidiary of Heftler Construction Company. All utilities have been installed in these units. Unit No. 1 contains 101 lots on which homes have been constructed which will be ready for occupancy between August 1 and 15, 1956. All homes have been sold in this unit, except seven

retained as models. Unit No. 2 consists of 78 lots. Thirty-five of these lots had been sold as of July 5, 1956. A water system has been installed by Heftler Construction Company in Units Nos. 1 and 2, and it will provide free water pending certification of a public utility water service.

Description of the Water System

The Agua Copia Mutual Water Company, Ltd., is a mutual water company furnishing domestic and irrigation water to its members in the two sections here involved. It has outstanding 20,000 shares owned as follows:

<u>Certifi- cate No.</u>	<u>Holder</u>	<u>Number of Shares</u>
10	Union Joint School District	21
14	Henry and Ida Reese	12
20	Henry and Mary Figot	20
	Heftler Construction Company	<u>19,947</u>
		20,000

The present directors of the Agua Copia Mutual Water Company are the directors of the Mira Loma Water Company. It is proposed that applicant issue 10,000 shares of its stock to the Agua Copia Mutual Water Company in exchange for the high pressure domestic water system of the latter company. The domestic water system to be acquired in exchange for the stock is depicted in Exhibit F on the application. It includes land, Well No. 4, a 75-horsepower electric pump, storage facilities for approximately 125,000 gallons of water, 2 booster pumps, 2 pressure tanks, and approximately 2½ miles of distribution lines. Heftler Construction Company has installed a system of 4- and 6-inch mains in Units Nos. 1 and 2 (see Exhibit D on the application), and has renovated the system to comply with the requirements of the Health Department of Riverside County. The applicant will acquire the existing and newly constructed portion of the system from the Mutual and Heftler companies and will install new

portions of the system as homes or businesses are constructed. In order to finance the acquisition or new construction, applicant seeks to issue the aggregate of \$103,000 of its debenture bonds in multiples of \$100, payable on or before 20 years at the election of applicant, with interest thereon at 6 per cent per annum, payable annually, to Heftler Construction Company.

The Water Supply

The Agua Copia Mutual Water Company has two wells. Well No. 4 is located at the northwest corner of the proposed service area and is to be transferred to the applicant as hereinbefore stated. Well No. 6 is west of Etiwanda Avenue (see Exhibit F on the application for the locations of the two wells). Well No. 6 will not be acquired by the applicant but will be available to applicant as a standby well.

Well No. 4 is equipped with an electrically driven pump. The static water level is 128 feet. In tests made on May 17, 1956, it produced 1,303 gallons per minute after 30 minutes of pump operation, and 1,243 gallons per minute after 45 minutes of pumping. In each instance the pumping water level remained at 135 feet. Water from this well flows into a 125,000-gallon concrete reservoir and is pumped into the domestic system by two booster pumps having a total capacity in their present condition of approximately 500 gallons per minute (see Exhibit No. 6). One of these pumps producing approximately 238 gallons per minute could be repaired or replaced to produce about 475 gallons of water per minute. In addition, by adding another booster pump the plant could be made to produce approximately 1,000 gallons per minute. The amount of water which can presently be discharged into the distribution mains is limited by the size of the plant, and additional facilities will be required in order to

secure more water. Water from Well No. 4 has been tested and found bacteriologically acceptable.

Well No. 6, west of Etiwanda Avenue, is equipped with a gas-driven pump and will produce over 3,500 gallons of water per minute. Water from this well can be used if necessary as it is connected to the domestic system by a 16-inch concrete pipe. This well is being retained by Agua Copia Mutual Water Company, but water therefrom will be available to applicant in the event it is needed. This water has not been tested for purity but will be chlorinated if mingled with applicant's water.

A consulting engineer testified that the two wells referred to above produce about 2.8 times the amount of water required for the ultimate development of 5,000 homes. In addition, he stated that the service area is in the Western Municipal Water District served by the Metropolitan Water District, and the Metropolitan Water District aqueduct is at present approximately 3 miles east of the proposed service area. Applicant also proposes to have two wells and pumping plants in the vicinity of the flood control channel in the southern part of the service area.

The company, in its initial presentation, proposed to purchase and utilize as a source or supply, Well No. 4. Staff testimony showed the need for additional standby water supply. In an attempt to satisfy the requirement for standby water supply, the company submitted a late-filed Exhibit No. 12 which was an agreement between applicant and the Agua Copia Mutual Water Company. This exhibit was not subject to cross-examination.

The agreement states that the Agua Copia Mutual Water Company intends to operate Well No. 6, but does not specify when it is to be made operative. The agreement grants each party a license to use and take water from either party "when and as needed", but

makes no limitation on withdrawals from the applicant's system. The agreement states that each party shall reimburse the other for the cost of water taken but does not specify what the cost is or how the cost is to be determined. The agreement further limits the term of the agreement to 5 years.

Such an agreement is not satisfactory and as a condition of this order arrangement for suitable standby facilities will be required.

From the record herein it appears that the existing plant is adequate for the initial development, and that there is sufficient water available for the ultimate development of the entire service area. A deficiency in storage facilities may, however, develop as the demands on the system increase.

Financing

The Stock Issue

Applicant requests authority to issue 10,000 shares of its no par value stock to Agua Copia Mutual Water Company in exchange for the domestic water system hereinabove referred to. This system is appraised by the applicant as having a depreciated value of \$27,157 (Exhibit No. 7), and by the staff as having a depreciated cost of \$13,750 (pages 13 and 14 of Exhibit No. 9), as of January 1, 1956. The staff excluded from its appraisal 3,660 feet of 2-inch mains, and 1,730 feet of 6-inch mains as being nonoperative or as being owned by an aviation company in the proposed service area. The staff also deleted six fire hydrants as belonging to the aviation company, and one 2-inch pressure regulator which the staff witness could not locate. The applicant's estimates of value of the parts of the system were asserted to be based on reproduction cost new. The staff's estimate was based on the estimated historical cost at the time of the installation. The staff's method of evaluation is in

accordance with the established practice of this Commission. The evidence shows and we find that the staff's estimate of historical cost and its treatment of depreciation of the domestic water system of the Agua Copia Mutual Water Company are correct, and applicant will be permitted to acquire said system and to issue in payment therefor shares of stock of the value of \$13,750. The applicant has asked authority to issue 10,000 shares of no par value stock in exchange for said assets. This would attribute to each share of the no par value stock a value of \$1.375. We will restrict the authorized issue to one share of stock for each \$25 in value of the depreciated assets as hereinabove set forth. This will permit applicant to issue 550 shares of its no par value stock to Agua Copia Mutual Water Company in exchange for the above-described assets.

The Bond Issue

The applicant requested that it be permitted to deviate from its main extension rule and issue \$103,000 in 6 per cent debenture bonds to install mains and services over the period of the next 3 years, and to finance the costs of improvements in the water systems. These bonds are to be issued to Heftler Construction Company, the subdivider and builder of homes in the proposed service area. The president of the latter company, who is also the president of the applicant company, testified that the Heftler Construction Company has a net worth of approximately \$3,000,000, and will purchase the bonds as the applicant requires finances, such purchase to be for cash at face value without discount or the payment by applicant of any brokerage fee.

The fact that Heftler Construction Company has a net worth of approximately three million dollars is not material in connection with the matter now before the Commission. The construction company and the Mira Loma Water Company, applicant herein, are separate corporations and the Commission's inquiry in this proceeding must be directed into the adequacy of the proposed financing plans of the applicant. Its proposal to issue debentures as a means of financing the cost of installing mains, services and other facilities over the period of the next 3 years will result in it having an unbalanced capital structure consisting predominantly of long-term debt. The inevitable result under such a condition is that the estimated earnings of the company would not be sufficient to enable it to meet the interest and sinking fund requirements associated with its proposed debenture issue.

It must be concluded, therefore, that applicant's proposal to acquire only a small portion of the system it seeks authorization to serve through issuance of its capital stock and to acquire the balance through the issue of long-term debt would be adverse to the public interest.

The evidence is clear, however, that there is need for the service which applicant proposes to render. We will, therefore, attach as a condition to the granting of the requested certificate of public convenience and necessity the requirement that applicant, by supplemental application, request approval of an alternate form of financing its construction program so that, of its initial investment in properties which is estimated to total \$116,750, at least 60 per cent thereof or approximately \$70,000 be financed through the issue and sale of its common stock.

Rates

The applicant proposes that all services shall be metered, but requests that the following rates be authorized.

Meter RatesApplicability

Applicable to all metered water service.

Monthly Quantity Rates:

First	800 cu.ft. or less	.....	\$ 2.75
Next	1,000 cu.ft., per 100 cu.ft.	.....	.30
Next	1,200 cu.ft., per 100 cu.ft.	.....	.25
Next	2,000 cu.ft., per 100 cu.ft.	.....	.20
Over	5,000 cu.ft., per 100 cu.ft.	.....	.15

Monthly Minimum Rates:

For	5/8 x 3/4-inch meter	.....	\$ 2.75
For	3/4-inch meter	.....	3.50
For	1-inch meter	.....	5.00
For	1 1/2-inch meter	.....	8.00
For	2-inch meter	.....	12.00

Each of the foregoing Monthly Minimum Charges will entitle the customer to the quantity of water which that monthly minimum charge will purchase at the Monthly Quantity Rates.

Flat RatesApplicability

Applicable to all flat rate service.

Each Service Connection, per Month:

For	3/4-inch connection	.....	\$ 3.85
For	1-inch connection	.....	7.00
For	1 1/2-inch connection	.....	11.20
For	2-inch connection	.....	16.80

Meters may be installed at the option of either the utility or the customer.

Earnings

Applicant's accounting witness submitted a report, Exhibit No. 8, on applicant's estimated earnings for the year 1956, adjusted, and the

years 1957 and 1958, estimated, at the proposed rates. A Commission staff engineering witness submitted a report, Exhibit No. 9, of applicant's estimated results of operations which included the last four months of the year 1956 and for the years 1957 and 1958 at the proposed rates. The following tabulation summarizes the earnings information:

Item	1956		1957		1958	
	Applicant	Staff	Applicant	Staff	Applicant	Staff
Operating Revenue	\$ 3,667	\$ 4,725	\$13,095	\$16,875	\$ 24,037	\$ 31,875
Adjusted Operating Expense	<u>11,969</u>	<u>3,070</u>	<u>16,638</u>	<u>12,225</u>	<u>22,706</u>	<u>21,360</u>
Net Revenue	<u>(8,032)</u>	1,655	<u>(3,543)</u>	4,650	1,329	10,515
Avg. Depr. Rate Base	44,701	30,660	77,261	65,825	108,971	101,500
Rate of Return	-	5.4%	-	7.1%	1.22%	10.4%

(Red Figure)

Applicant's witness estimated that the expenses of this proceeding include \$300 for filing the application, \$1,500 attorney fees, \$1,700 engineering fees, and \$1,100 accounting fees, for a total of \$4,600. All of the charges appear to be directly connected with the formation of the corporation and hearing on the instant application, except the fees of Mr. Taylor, the engineer. The major portion of his services were rendered to the Heftler Construction Company. From the record herein it appears and we find that \$700 is a reasonable sum to allow as Mr. Taylor's fees in connection with this proceeding, resulting in an amount of \$3,600 for organization costs.

Operating revenues estimated by applicant and the staff differed principally due to the difference in estimates of average consumption. The company estimated average consumption per customer per month to be 1,500 cubic feet, the staff 2,000 cubic feet. Based on the record, the staff's estimate of revenues appears to be more reasonable and will be adopted in this order.

A comparison of operating revenues and estimated operating expenses for 1958 shows close agreement between the staff and the applicant, and the staff's estimate of operating expenses will be adopted.

Consistent with the adoption of the staff's appraisal of the acquired mutual properties and the staff's depreciation expense and reserve, the staff's average depreciated rate base, adjusted to include additional organization costs, will be utilized in this order.

Based on the adjustments to operating expense and rate base outlined heretofore, including a resulting working cash adjustment and the reduction of operating revenues required to provide a reasonable rate of return of 7.0 per cent in 1958, which return we find to be just and reasonable, the following summary of earnings results for 1958:

Summary of Earnings

<u>Item</u>	<u>1958</u>
Gross Revenue	\$ 27,030
Operating Expenses	<u>19,755</u>
Net Revenue	7,275
 Avg. Depreciated Rate Base	 103,100
Rate of Return	7.0%

Conclusion

From a review of the record it appears that the sources of water supply and the proposed water system installations are adequate to serve the area requested to be certificated. It further appears applicant's proposed rates are excessive and that it should be permitted to file a schedule of rates that will yield a 7.0 per cent rate of return, utilizing the rate of return components found reasonable heretofore.

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 Commission is also of the opinion that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required for the purposes herein specified and that expenditures for such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

O R D E R

An application having been filed, public hearings having been held thereon, the matter having been submitted and now being ready for decision, and the Commission having made the foregoing findings, and based upon such findings,

IT IS ORDERED as follows:

1. That Mira Loma Water Company, a corporation, be and it is granted a certificate of public convenience and necessity to construct and operate a public utility water system in the area described hereinabove subject to the conditions that applicant shall:

- a. Obtain a water supply permit as required by the pure water law of the California Health and Safety Code prior to the introduction into the system of any water from the Agua Copia Mutual Water Company's Well No. 6. A copy of this permit shall be filed with this Commission within ten days after its issuance.

- b. Obtain a firm standby source of water supply at least equivalent to the present No. 4 Well (1,300 gallons per minute capacity) and connect said standby source into the water distribution system of the Mira Loma Water Company. A written notice of completion of arrangements for said standby source shall be provided within ninety days of the effective date of this order.

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 a 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 hereinafter provided.

3. That applicant shall file, within ninety 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 of not smaller than 600 feet to the inch, delineating by appropriate markings the various tracts of land and territory served for which this certificate is issued, the sources of water supply and the distribution facilities, and the location of the various properties of the applicant.

4. That applicant, after the effective date hereof, may issue not to exceed 550 shares of its no par value capital stock to Agua Copia Mutual Water Company for the purpose specified in the foregoing opinion.

5. That applicant shall file with the 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.

6. That, beginning with the year 1956, applicant shall determine the depreciation expense by multiplying the depreciable capital

by a rate of 2.5 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 capital occur and at intervals of not more than 3 years, and revise the above rate in conformance with such reviews. Results of such reviews shall be submitted to the Commission.

7. That applicant shall set up on its book of account the amounts substantially as shown in Table 4-A of Exhibit No. 9 referred to in the opinion herein representing the utility plant and related depreciation reserve requirement for the property to be acquired from the Agua Copia Mutual Water Company, and within sixty days thereafter applicant shall submit to the Commission in writing a copy of the journal entries used to record such transactions.

8. The authority herein granted will become effective when applicant, by supplemental application, has submitted to the Commission for its consideration, a plan of financing its initial construction program which meets the requirements set forth in the preceding opinion and has received an order from this Commission approving such plan of financing.

Dated at San Francisco, California, this 19th day of NOVEMBER, 1956.

John E. Mitchell
President
Paul R. [unclear]
[unclear]
[unclear]
Commissioners

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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community known as Mira Loma Village, Riverside County.

RATES

Quantity Rates:

	<u>Per Meter</u> <u>Per Month</u>
First 900 cu.ft. or less	\$ 2.60
Next 1,000 cu.ft., per 100 cu.ft. ....	.25
Next 1,100 cu.ft., per 100 cu.ft. ....	.20
Over 3,000 cu.ft., per 100 cu.ft. ....	.15

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 2.60
For 3/4-inch meter	3.50
For 1-inch meter	5.00
For 1 1/2-inch meter	8.00
For 2-inch meter	12.00

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

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Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community known as Mira Loma Village, Riverside County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
For each 3/4-inch service connection ...	\$ 3.65
For each 1-inch service connection ...	7.00
For each 1 1/2-inch service connection ...	11.00
For each 2-inch service connection ...	17.00

SPECIAL CONDITIONS

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

2. Meters may be installed at option of utility or customer for above classification in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service.