

ORIGINALDecision No. 54524

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of AIRBASE WATER CO., a California)
corporation, for a certificate of)
public convenience and necessity)
to operate a water system for the)
furnishing of water to the public)
in the area hereinafter described;)
to establish water rates (Section)
1001 of P. U. Code); to issue and)
sell stock, and to exercise franchise)
rights.)

Application No. 38566
as amended

Nicholas E. Koshell, for applicant.
W. B. Stradley and Sidney J. Webb for the
Commission staff.

O P I N I O NNature of Proceeding

By the above-entitled application, filed November 13, 1956, Airbase Water Co., a California corporation, seeks (1) a certificate of public convenience and necessity to construct and operate a public utility water system in Lots 12 and 14 of the Casad Colony, adjacent to Castle Air Force Base, Merced County, (2) authority to establish rates for service and (3) authority to issue stock.

Public Hearing

Public hearing in the matter was held before Examiner F. Everett Emerson on December 12, 1956, at Merced. The matter was submitted upon receipt of a late-filed exhibit on December 26, 1956. At the hearing applicant amended its application so as to seek authorization to issue \$75,000 worth of stock.

The Applicant and Area Development

Applicant's president is in the real estate business and owns and intends to develop approximately 40 acres of Lots 12 and 14 of the Casad Colony into 183 homesites and a shopping center area.

The development of the homesites is being handled by Shellko Investment Company of which applicant's president is also president and the development of the shopping center is being handled by Franklin Land Company of which applicant's president is secretary. Applicant was organized to supply the area with water service. Applicant's president is Nicholas E. Koshell, its vice-president Bud Raymond, a nephew of the president, and its secretary Ethone R. Koshell, the wife of the president. Applicant has an authorized capitalization of \$75,000.

Applicant anticipates housing development of 37 lots along Buhach Road to be completed by December, 1957. Homes are now under construction on 10 of these lots. Development of the balance of the tract, 146 lots, will depend upon the availability of home loan money to prospective purchasers but applicant expects completion by the end of 1958.

No franchise has been issued to applicant, nor is one required by the County of Merced, according to applicant.

The Water System

Applicant proposes to develop a 12-inch well, approximately 150 feet deep, on a 2500 square foot parcel of land near the south end of the tract which will be purchased from the Franklin Land Company. The well is to be pumped by a deep well pump driven by a 25 hp electric motor. A 2500-gallon pressure tank is to be installed at the well site. Also on this site will be a 20 x 40-foot structure to be used as a pump house, tool house and warehouse for the storage of water system materials.

The proposed ultimate distribution system is to consist of approximately 7600 feet of 6-inch mains laid primarily in easements at the rear of the lots, with closures at the north and south ends of the easement mains so as to form a circulatory system. Applicant's

present office is at the home of its president in Ceres, 25 miles or more from the system, and applicant intends to operate the system from such office during the early stages of development. A local manager of the system who would live within the tract would later be employed.

Applicant's estimated cost of the ultimate system is \$50,087.50, distributed as follows:

Initial Development (to serve 37 lots)

Intangibles (costs of organization)	\$ 1,000.00
Land (well site)	2,750.00
Building (pump house and warehouse)	1,600.00
Well	2,500.00
Pump and Pressure Tank	4,000.00
Mains (2,300 ft. of 6" pipe)	9,200.00
Services (37)	277.50
Fire Hydrants (3, wharf type)	1,650.00
Office Equipment and Supplies	<u>1,650.00</u>
Subtotal	24,627.50

Balance of Development (146 lots and shopping center)

Mains (5,300 ft. of 6" pipe)	21,200.00
Services (148)	1,110.00
Meters (20)	1,500.00
Fire Hydrants (3, wharf type)	<u>1,650.00</u>
Subtotal	25,460.00

Ultimate Total \$50,087.50

These estimated costs are in no instance firm but are those taken from the president's general knowledge. In the informed judgment of the Commission, most items are considerably higher than should be experienced. For example, a 6300 square foot lot in the subdivision is valued at \$1,750 yet applicant proposes to pay its

affiliated company \$2,750 for a parcel only 2500 square feet in area. As another example, applicant's estimated installed cost for a wharf type fire hydrant is \$550 whereas such a hydrant would normally cost \$150 or less. A 150-foot, 12-inch, drilled and cased well should not exceed a cost of \$1,500 whereas applicant's estimate is \$2,500. The cost of a meter, installed, is more nearly \$40 than the \$200 originally estimated and the \$75 finally estimated by applicant. In short, applicant's estimated costs appear to be excessive and its proposal for land purchase improvident.

Reasonable installed costs for the proposed system together with a provision for working capital appear to be approximately as follows:

Intangibles	\$ 1,000
Land	1,750
Building	1,600
Well	1,500
Pump, Wiring and Tank	4,000
Mains, 7600'	22,800
Services	1,400
Meters	800
Fire Hydrants	900
Office Equipment and Supplies	1,650
System Supplies	500
Automotive Equipment	1,100
Working Capital	<u>1,000</u>
Total	\$40,000

Financing of System

Applicant proposes to finance the system through the sale of stock to Nicholas E. Koshell and Ethone R. Koshell and to no others. Applicant requests that it be authorized to issue stock to

the sum of \$75,000. However, no showing was made as to the necessity for issuance of any amount in excess of the actual cost of the proposed water system.

Proposed Rates

The rates proposed by applicant are basically flat rates, it being applicant's intention to meter only the commercial users in the shopping center. However, applicant requests that the utility be accorded the option of metering residential customers should such customers undertake excessive usage or wastage of water.

For residential flat rate service for the sizes of lots contemplated for the over-all subdivision development, applicant proposes a charge of \$4.85 per month. To be added to such basic charge would be charges of \$1.00 for water-wasting air coolers or 40¢ for water-saving air coolers during the summer months and \$3.00 for each additional residence on the same lot. For 1 to 3 room apartments applicant proposes to charge \$2.50 per month; for 4 to 5 room apartments \$3.50 per month and for trailers, tents and temporary dwellings \$1.50 per month. Applicant's proposed basic meter schedule would charge \$3.00 per month for 700 cubic feet or less, with succeeding blocks of usage ranging from 20¢ to 10¢ per 100 cubic feet.

Prospective Results of Operation

Applicant estimates ultimate annual gross revenues of \$13,353 and gross annual operating expenses of \$10,018. Net revenues of \$3,335 resulting therefrom would indicate a rate of return of approximately 8.3 per cent on a probable rate base of about \$40,000. Such a rate of return, in this instance, would be excessive. The rates which applicant has proposed are higher than necessary to provide applicant with a reasonable return on its investment in water facilities.

Conclusions

In view of the evidence we find that public convenience and necessity require and will require that applicant be granted a certificate for the area requested. Such certificate is 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.

We find that the money, property or labor to be procured or paid for by the issue of \$40,000 of stock authorized herein is reasonably required by applicant for the purposes hereinabove specified and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. The action taken herein shall not be construed to be a finding of the value of the property to be acquired with the proceeds of the capital stock herein authorized to be issued.

We find that the rates for water service authorized herein are fair and reasonable rates. Such rates are designed to provide applicant with a rate of return of approximately 6 per cent on a reasonable rate base of \$40,000. Such rate base and rate of return, however, will not be realized until full development of the subdivision and water system is accomplished. In the meantime, applicant may realize little or no return. Applicant is aware of such probability.

O R D E R

Public hearing having been held, the matter having been submitted and considered by the Commission and based upon the evidence and the findings contained in the foregoing opinion,

IT IS ORDERED that a certificate of public convenience and necessity be and it is hereby granted Airbase Water Co. to construct and operate a public utility water system for the production, storage, distribution and sale of water within the area known as Lots 12 and 14 of the Casad Colony as delineated on Exhibit No. 1 in this proceeding provided, however, that such grant of a certificate of public convenience and necessity shall not become effective until applicant shall have acquired title to the parcel of land on which the well, pumping plant, pressure tank and building are to be located, and until applicant shall have filed in this proceeding a copy of the instrument by which the title is conveyed.

IT IS HEREBY FURTHER ORDERED as follows:

1. Applicant is authorized to file in quadruplicate with this Commission the rates set forth in Appendix A attached to this order; such rates, together with rules and tariff service area map acceptable to the Commission and in accordance with the requirements of General Order No. 96, shall be filed so as to become effective on or before the date service is first rendered to the public and after not less than five days' notice to the Commission and to the public after filing as hereinabove provided. Applicant shall notify the Commission in writing of the date on which service is first rendered the public under the rates and rules authorized herein, within five days thereafter.

2. Applicant, after the date hereof and on or before June 30, 1958, may issue and sell to Nicholas E. and Ethone R. Koshell, at not less than par, not exceeding \$40,000 of its \$100 per share par

value stock and use the proceeds thereof for the purposes set forth in the foregoing opinion. Applicant 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 of this order. The application in so far as it involves the issue of stock in excess of \$40,000 is denied.

3. Not later than ninety days after the date on which service is first rendered the public under the rates and rules authorized herein applicant shall subscribe to local exchange telephone service within the certificated area in the name of Airbase Water Co. Such telephone service may be joint user service with its agent located within the certificated area. Applicant shall notify this Commission in writing of having so subscribed within ten days thereafter.

4. Within ninety days after the effective date of this order, applicant shall file with this Commission four copies of a comprehensive map, drawn to an indicated scale not smaller than 100 feet to the inch, delineating by appropriate markings the various tracts of land and territory served for which the certificate herein is issued, the principal water production, storage and distribution facilities and the location of the various properties of applicant.

5. Applicant shall base accruals to depreciation upon spreading the original cost of plant, less estimated net salvage and depreciation reserve, over the estimated remaining life of the property. Initially, applicant shall determine depreciation expense by multiplying the dollar amount of depreciable fixed capital by a rate of 3.0 per cent. Such rate shall be used until such time as review indicates that the rate should be revised. A review of the depreciation rate, using the straight-line remaining life method of computation, shall be made whenever substantial changes in depreciable fixed capital occur and at intervals of not more than five years. Results of such reviews shall be submitted to this Commission.

6. The certificate and the authority to issue stock herein granted will expire if not exercised within one year from the date hereof.

7. Before the date service is first rendered to the public, applicant shall provide water supply facilities capable of producing sufficient water to render service within the area certificated herein in a manner which shall fully meet the requirements of this Commission's General Order No. 103. At least ten days before commencing service, applicant shall notify the Commission in writing of the completion of the provision of such facilities, together with a brief description thereof including such items as the dimensions of the parcel of land actually obtained, size and depth of the well or wells as developed, the quality and quantity of the water obtainable therefrom, the size in horsepower and capacity in gallons per minute of the pumping unit installed, the size of the hydropneumatic tank or tanks connected thereto, the capacity of any storage provided, and the limits of the operating pressures of the system.

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

Dated at San Francisco, California, this 11th day of FEBRUARY, 1957.


[Signature]
President

[Signature]

[Signature]
Commissioners

D I S S E N T

I dissent from the foregoing decision. In the light of the circumstances shown in the decision I am of the opinion that the prescribed rate of return of 6% is too low, and is unjust and unreasonable. I also believe that the stock issue authorized by the decision should be escrowed until the project has attained a reasonable degree of success.



Rex Hardy
Commissioner

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Airbase Center located adjacent to Castle Air Force Base, approximately 2 miles northeast of Atwater, Merced County.

RATES

Quantity Rates:		<u>Per Meter per Month</u>
First	700 cu.ft. or less	\$ 3.50
Next	1,300 cu.ft., per 100 cu.ft.20
Next	3,000 cu.ft., per 100 cu.ft.15
Next	5,000 cu.ft., per 100 cu.ft.12
Over	10,000 cu.ft., per 100 cu.ft.10
Minimum Charge:		
For	5/8 x 3/4-inch meter	\$ 3.50
For	3/4-inch meter	4.25
For	1-inch meter	6.50
For	1-1/2-inch meter	7.50
For	2-inch meter	13.50
For	3-inch meter	21.00
For	4-inch meter	30.00

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

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area known as Airbase Center located adjacent to Castle Air Force Base, approximately 2 miles northeast of Atwater, Merced County.

RATES

	<u>Per Service Connection per Month</u>
1. For a single family residence, including premises not exceeding 7,000 sq.ft. in area ..	\$4.25
a. For each additional residence on the same premises, served from the same service connection	3.00
2. For Duplexes or Apartment Buildings, including premises not exceeding 7,000 sq.ft. in area:	
a. Each 1-, 2-, or 3-room apartment	2.50
b. Each 4- or 5-room apartment	3.50
3. For each 100 sq.ft. of area in excess of 7,000 sq.ft., in addition to above flat rates02
4. For each auto trailer, tent or other temporary residential unit when used as a residence, not including irrigation of premises	1.50
5. For each evaporative type cooler in addition to regular flat rates, during the 6-month period May through October:	
Circulating type40
Noncirculating type	1.00

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE (Contd)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classifications will be furnished only on a metered basis.
3. A motor may be installed at option of utility or customer for above classifications, in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service.

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area known as Airbase Center located adjacent to Castle Air Force Base, approximately 2 miles northeast of Atwater, Merced County.

RATE

Per Month

For each hydrant \$2.00

SPECIAL CONDITIONS

1. The cost of installation and maintenance of hydrants will be borne by the utility.
2. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.