

ORIGINAL

Decision No. 54596

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Daggett Water Company)
 to operate a water system at Daggett,)
 County of San Bernardino, State of)
 California; to establish rates; and)
 to obtain certificate of public con-)
 venience and necessity; and to issue)
 stock.)

Application No. 37793

Conrad E. Mahlum, for applicant;
Zulicka S. Pasion, protestant;
James E. Kelley; and Hubert E. Orton, for
 himself and O. W. Childs Co., interested
 parties;
James G. Shields, for the Commission staff.

O P I N I O N

Daggett Water Company, a California corporation, hereinafter referred to as applicant, by the above-entitled application filed on February 29, 1956, seeks (1) a certificate of public convenience and necessity to construct and operate a public utility water system in and around the unincorporated community of Daggett, San Bernardino County, California, (2) to establish rates, and (3) to acquire the assets of the Daggett Mutual Water Company,¹ and to issue stock in exchange therefor.

A public hearing on the application was held in Barstow, California, on January 3, 1957, before Examiner Kent C. Rogers. Prior to the hearing, notice thereof was published and mailed to consumers of the mutual, as required by this Commission. One protestant

¹ This does not appear to be a mutual water company in any sense; rather it appears to be an unincorporated association, which has been operating as a public utility water corporation since 1930 without having received a certificate of public convenience and necessity from this Commission. For the sake of brevity, however, it will be referred to herein as "the mutual."

appeared who expressed complaints concerning the mutual's operations but did not object to its acquisition by applicant.

History

From about 1880 to 1906 water was furnished to the community of Daggett by The Atchison, Topeka and Santa Fe Railroad, hereinafter referred to as Santa Fe, through its privately owned system. In 1906 an individual took over the job of supplying water to the community using the Santa Fe's facilities. The system well eventually became inadequate, and during the period from 1928 to 1930 water was imported by the Santa Fe in tank cars, or taken from irrigation ditches, and boiled by the consumers prior to use. In 1930, the existing so-called Daggett Mutual Water Company was formed by a group of Daggett residents, who contributed a total of approximately \$6,600 for a well and necessary facilities, and took over from Santa Fe the then existing water system. Although the mutual was not incorporated it issued shares of stock, receipts, or other documents representing the contributions of its members. Santa Fe transferred the then existing distribution system to the mutual in exchange for water. The system transferred by Santa Fe is paid for, and Santa Fe now purchases its water pursuant to the mutual's tariffs. The number of consumers has increased from 20 in 1930 to approximately 146 at the end of 1956.

The applicant filed its articles of incorporation with the Secretary of the State of California on May 6, 1956. By its articles it is authorized to issue 2500 shares of no par value stock. The applicant intends to issue a total of 420 of these shares to the present owners of the mutual in exchange for the existing business and assets thereof. Each of the incorporators and first directors of the applicant is a member of the mutual.

The Proposed Service Area

The area for which applicant seeks a certificate consists of approximately 160 acres of land, including the unincorporated community of Daggett, about 8 miles east of Barstow, and is located on U. S. Highway 66, which is known as California Street in Daggett,² California. The elevation of the area is at approximately 1900 feet with a drop of 30 feet from the south to the north. The main line of the Santa Fe railroad passes through the approximate center of the area in an east-west direction about 200 feet north of and parallel to U. S. Highway 66. The highway is located about 750 feet north of the southern boundary of the proposed service area. South Street, also an east-west street, is parallel to and about 250 feet south of U. S. Highway 66.

The Water System

The water system to be acquired from the mutual is shown on Exhibit No. 3. The source of water is from two wells which have an aggregate capacity of 225 gallons per minute. These wells are located south of and outside the service area. One of the wells is equipped with a 10-horsepower electrically driven turbine pump and the other is equipped with a similar 25-horsepower pump. The water supply has been approved by the San Bernardino County Health Department. The storage consists of a 130,000-gallon concrete reservoir located in the vicinity of the wells. From the reservoir water is pumped under pressure furnished by a 5-horsepower pump through a 2000-gallon hydropneumatic tank operated at a pressure of 25 to 45 pounds per square inch into the system. The pressure tank is approximately 500 feet south of the southern boundary of the service

² See Exhibit No. 3.

area. The land on which the described facilities are located is owned by the mutual. Two transmission mains extend from the pressure tank into the service area. An 8-inch transmission main extends north to South Street. A system of 4-inch and smaller distribution mains is used to carry water from the 8-inch main to customers south of U. S. Highway 66. A 4-inch cast-iron main parallels the 8-inch main to South Street and extends north across U. S. Highway 66 and the Santa Fe right of way to within 400 feet of the northern boundary of the service area. This line provides service to the customers north of South Street along the 4-inch line and to all north of the Santa Fe right of way. A series of 4-inch and smaller lateral mains extend from the 4-inch line to the consumers. There are 14 fire hydrants in the area which are owned by the mutual.

From the evidence produced at the hearing it appears that the mutual has never secured authority from the Santa Fe to extend the 4-inch main across its right of way and that it is possible that when the line needs replacement or a larger line is desired, permission will not voluntarily be granted by Santa Fe to enter its right of way for construction purposes. Applicant's witness testified that the existing water supply will enable it to furnish water to approximately 10 additional customers. In order to secure the necessary water for future customers, as well as to assure a supply of water to the area north of the Santa Fe railroad in the event of the failure of the 4-inch main in the right of way, the mutual has acquired a 20-acre parcel of land one-half mile north of the service area on which it has drilled a well.³ This well was tested and had a production of 35 miner's inches with a 30-foot drawdown from a static level

³ Title to this property and the well is held by Walter F. Alf in trust for the Daggett Mutual Water Company.

of 50 feet. At present this well is capped, has no pump or other facilities, and there is no main from the well to the system, nor has this well been tested for purity. From the record herein, it appears that the existing plant is usable, and is providing service. The staff engineer witness testified that the lateral or distribution mains do not, in some instances, meet the standards set forth in the Commission's General Order No. 103 and recommended that the applicant establish a plan for replacement and maintenance which will ultimately result in compliance with that order. The recommendation is found to be proper, and the applicant will be required to submit to this Commission within 60 days after the effective date of the order herein, a satisfactory plan for the replacement of any existing inadequate lines, and for the placing into service of the well north of the service area.

Financing

Applicant requests authority to issue a total of 420 shares of its no par value stock in exchange for the water system and assets of the mutual. The stock is to be issued to the following persons or entities, or to the assignee of such person or entity, in the amounts set forth below:

| <u>Name</u> | <u>Number of Shares</u> |
|-------------------------------|-------------------------|
| Walter F. Alf | 75 |
| R. M. Campbell | 25 |
| Mrs. C. S. Coy | 30 |
| B. Allen Kramer | 100 |
| Myrtle Kenney | 10 |
| Jean W. Lucas | 30 |
| Hazel Ryerson | 40 |
| Estate of Homer C. Ryerson | 30 |
| George P. Scott | 50 |
| K. A. Vose | 30 |
| Total | <u>420</u> |

Each of the listed persons or entities holds a certificate, a receipt, or shares representing an interest in the mutual except R. M. Campbell. In August, 1955, Mr. James E. Kelley, an interested

party herein, purchased Mr. Campbell's interest or shares in the company. The order herein will require that prior to the commencement of operations by the applicant herein, all shares of stock, evidences of interest or receipts whatsoever, showing an interest in the assets of the mutual held by any person or entity be canceled and delivered to this Commission, and that applicant present proof to this Commission, satisfactory to it, that all evidences of interest, shares of stock, or receipts showing any right, or title or interest whatsoever in the assets or business of the mutual have been canceled. In addition, applicant shall acquire and make satisfactory proof thereof to the Commission, the full, legal and unencumbered title to all real estate and personal property now owned by the mutual.

A staff accounting witness testified that, in connection with the current proceeding, an examination was made of the accounting records which the mutual had maintained since its inception in 1930. This examination revealed, he said, that the primary purpose of the accounting records as maintained was to provide a means of recording month-end cash balances, and that it was not possible to arrive at a figure which might be presumed to represent the original cost of the properties which the applicant proposes to acquire.

Applicant's secretary and treasurer stated that the value of the system as of December 31, 1956, was \$47,480.55, including the new well and well site, and that, as of that date, the mutual had \$2,587.37 cash on hand, and no debts. From the record it appears that the mutual did not at any time record depreciation or depreciation reserve. No evidence was presented by the applicant or the mutual to show the original cost of the plant or the value at any time except as of December 31, 1956.

A staff engineering witness made a field inspection and study of the system, and determined the costs, when possible and the service lives of the plant components. When such costs were not

ascertainable he checked various cost lists and catalogues to determine the costs of the plant components. His estimate of the historical cost of the plant, including the land and land rights, as of January 1, 1955, was \$35,027 less a depreciation reserve of \$10,033. The items he appraised and the estimated historical cost thereof are set out on pages 14 through 20 of Exhibit No. 5. Not included are the costs of the well and the land north of the service area which were acquired in 1955, nor additions to the plant since January 1, 1955. The witness recommended that until a further review of the remaining lives of the plant is made a composite depreciation rate of 2.96 per cent be used. As the applicant did not furnish information from which the cost of the plant could be determined, the appraisal of the staff witness will be used, and is hereby found to represent the present depreciated cost of the items approved. The applicant will be authorized to issued not to exceed 420 shares of its no par value stock to the persons or entities, or the assignees thereof, hereinbefore set forth, in exchange for all of the assets of the mutual, including the well and well site north of the service area and cash on hand at the date of the transfer, and to assume the obligations of the mutual company, subject to the conditions set forth in the order herein. In setting up its books applicant shall show the cost of the plant and properties acquired to have been substantially as follows as of January 1, 1955:

| <u>Ac. No.</u> | <u>Description</u> | <u>Est. Original Cost Including Overheads</u> | <u>Reserve Requirements</u> |
|----------------|-------------------------------------|---|-----------------------------|
| 306 | Land and Land Rights | \$ 545.00 | \$ - |
| 315 | Wells | 6,546.36 | 2,033 |
| 316 | Supply Mains | 759.79 | 136 |
| 321 | Structures and Improvements | 440.00 | 150 |
| 325 | Pumping Equipment | 4,213.79 | 1,515 |
| 342 | Reservoirs and Tanks | 3,647.08 | 1,053 |
| 343 | Transmission and Distribution Mains | 11,797.10 | 3,012 |
| 345 | Services | 1,750.98 | 1,079 |
| 346 | Meters | 3,550.95 | 342 |
| 347 | Meter Installations | 596.84 | 149 |
| 348 | Fire Hydrants | 98.00 | 21 |
| 349 | Misc. Trans. & Distr. Plant | 962.00 | 301 |
| 378 | Tools and Shop Equipment | 119.00 | 53 |
| | Total | 35,026.89 | 10,033 |

Rates

Although nonmetered service is being rendered to four customers at present by the mutual, the applicant proposes to meter all services. The rates it has proposed are as follows and are the present rates of the mutual for metered service:

Quantity Rates

| | |
|----------------------|-----------------------|
| 0 to 1000 cu.ft. | \$.30 per 100 cu.ft. |
| 1000 to 2000 cu.ft. | .25 per 100 cu.ft. |
| 2000 to 3000 cu.ft. | .20 per 100 cu.ft. |
| All over 3000 cu.ft. | .15 per 100 cu.ft. |

Monthly Minimum Charge

| | |
|----------------------|-------------------|
| For 5/8-inch meter | \$ 3.00 per month |
| For 3/4-inch meter | 4.00 per month |
| For 1-inch meter | 6.00 per month |
| For 1 1/4-inch meter | 8.00 per month |
| For 1 1/2-inch meter | 10.00 per month |
| For 2-inch meter | 15.00 per month |

The mutual did not present sufficient evidence to allow a determination of its rate of return. Its total income for the year 1956 was \$8,670 and its total expenditures with no allowance for depreciation or taxes was \$8,132 of which \$3,935 was for capital expenditures.

The staff witness' estimates of the applicant's results of operations for the years 1956 and 1957 are as follows:

| <u>Item</u> | <u>Estimated Year</u> | |
|------------------------------------|-----------------------|---------------|
| | <u>1956</u> | <u>1957</u> |
| Operating Revenues | \$ 9,100 | \$10,164 |
| Operating and Maintenance Expenses | 7,210 | 8,200 |
| Depreciation | 1,085 | 1,210 |
| Taxes | 956 | 1,159 |
| Total Operating Expenses | <u>9,251</u> | <u>10,569</u> |
| Net Revenue | (151) | (405) |
| Avg. Depreciated Rate Base | 28,181 | 31,651 |
| Rate of Return | - | - |

(Red Figure)

Upon the record the proposed rates appear to be reasonable and we so find.

Findings and Conclusions

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 to applicant as requested. This certificate is subject to the following provision of law and to the restrictions and conditions set forth in the order herein.

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 and finds 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 the expenditures for such purposes are not in whole or in part, reasonably chargeable to operating expenses or to income.

The order which follows will provide for the filing of the schedule of rates submitted by Daggett Water Company on Exhibit G attached to the application.

O R D E R

An application having been filed by Daggett Water Company, a public hearing having been held thereon, the matter having been submitted and now being ready for decision, and the Commission having made the foregoing findings,

IT IS ORDERED as follows:

1. That Daggett Water Company, a corporation, be, and it is, granted a certificate of public convenience and necessity to acquire, construct and operate a public utility water system in the area described hereinabove.

2. That Daggett Water Company 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 Daggett Water Company 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 300 feet to the inch, delineating by appropriate markings the various tracts of land for which this certificate is issued, the sources of water supply and the distribution facilities, and the locations of the various properties of the applicant.
4. That Daggett Water Company, after the effective date hereof, may acquire the assets of the Daggett Mutual Water Company including the well and well site north of the service area and in exchange therefor may issue to the persons or entities set forth in the opinion herein, or to their assignees, a total of not to exceed 420 shares of its no par value stock, provided, that the authority granted by the order herein is subject to the condition that prior to the commencement of operations Daggett Water Company shall acquire all shares of stock, receipts or other evidences of interest in the assets or business of the mutual and shall deliver such to this Commission for cancellation and shall present proof to this Commission satisfactory to it that all such evidences of interest in the assets or business of the mutual have been canceled.
5. That none of the shares of stock authorized by paragraph 4 hereof shall be sold or issued unless and until applicant corporation first shall have selected an escrow holder and said escrow holder first shall have been approved by the Commission; that when issued all documents evidencing any of said shares of stock shall be deposited with said escrow holder forthwith, to be held as an escrow pending the further written order of the Commission; that the receipt of said escrow holder for said documents shall be filed with the Commission; and that the owners or persons entitled to said shares shall not consummate a sale or transfer of said shares, or any interest therein, or receive any consideration therefor, until the written consent of the Commission shall have been obtained so to do.

6. That Daggett Water Company, prior to the commencement of service as herein authorized, shall certify over the signatures of its responsible officers that all evidences of interest in the assets of the mutual as specified in paragraph 4 of this order have been delivered to this Commission for cancellation and that it is the sole owner of the assets and business of the mutual without liability or encumbrance, as evidenced by appropriate deeds and bills of sale, and supported by the usual policy of title insurance issued by a title insurance company operating in San Bernardino County.
7. That Daggett Water Company shall inaugurate a plan for the replacement of those portions of its system which do not comply with the requirements of General Order No. 103 of this Commission. Such plan shall be submitted to this Commission within sixty days after the system is placed in operation under the rates and rules authorized herein.
8. Daggett Water Company, beginning with the year 1957, shall determine depreciation expense by multiplying the depreciable utility plant by a rate of 2.96 per cent. It shall review the depreciation rate, using the straight-line remaining life method whenever substantial changes in depreciable utility plant occur and at intervals of not more than five years and revise the rate in conformance with such reviews. Results of these reviews shall be submitted in writing to the Commission.
9. Daggett Water Company, in setting up its books of account to reflect utility plant, shall use the staff appraisal of utility plant as of January 1, 1955, as set forth in the opinion herein.
10. That Daggett Water Company shall file with the Commission monthly reports as required by General Order No. 24-A of this Commission, which order, in in so far as applicable, is hereby made a part of this order.

That the authority herein granted will expire if not exercised within one year from the effective 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 February, 1957.

Walter E. Mitchell
 President

Paul J. ...

...

E. Hardy

Commissioners

Commissioner Rex Hardy, 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 community of Daggett, San Bernardino County.

RATES

| Quantity Rates: | <u>Per Meter Per Month</u> |
|--|--------------------------------|
| First 1,000 cu.ft. or less | \$ 3.00 |
| Next 1,000 cu.ft., per 100 cu.ft. | .25 |
| Next 1,000 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 | \$ 3.00 |
| For 3/4-inch meter | 4.00 |
| For 1-inch meter | 6.00 |
| For 1 1/4-inch meter | 8.00 |
| For 1 1/2-inch meter | 10.00 |
| For 2-inch meter | 15.00 |

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