

# ORIGINAL

Decision No. 55804

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 (a) SIERRA WATER CO., a California )  
 corporation, for a certificate of )  
 public convenience and necessity for )  
 the operation of a public utility )  
 water system located in the City of )  
 Stockton, County of San Joaquin, )  
 California; (b) SIERRA WATER CO., a )  
 California corporation, to issue )  
 shares of its stock for the pur- )  
 pose of purchasing assets of an )  
 existing water system from MORROW )  
 DEVELOPMENT CO., a California )  
 corporation, which joins in said )  
 application. )

Application No. 39251  
(As Amended)

John S. Burd, Jr., for applicants.  
W. B. Stradley and C. V. Shawler, for the  
 Commission staff.

### O P I N I O N

In this joint application, as amended, the applicants seek authority from the Commission (1) to approve a transfer of a water system from applicant Morrow Development Company to applicant Sierra Water Company, (2) to issue a certificate of public convenience and necessity to said Sierra Water Company to operate a public utility water system in a subdivision known as the Sierra Meadows Tract in the City of Stockton, and (3) to permit said Sierra Water Company to issue 600 shares of its common stock as consideration for the transfer.

#### The Proposed Service Area

Applicant Morrow Development Company, a California corporation, is the present owner of the land and the water system in an area within said Sierra Meadows Tract known as Unit No. 1, more particularly described by a map attached to the application and designated Exhibit "C". Said tract consists of 67 acres divided into

320 lots, all as set forth and described in said Exhibit. Of the 320 lots, a total of 120 lots located in said Unit No. 1 of said tract have been improved and are presently serviced by a pump, well and water lines from said water system. Fifty-six homes on said lots have been sold, 11 are presently in the course of closing, 22 are partially completed, and construction on the remaining 31 is expected to commence within a year.

#### The Water System

The water facilities to be transferred consist of a well and pump, 21 six-inch gate valves, 5,420 feet of six-inch C-150 transite water mains, 9 fire hydrants, 9 two-inch blow-offs, and a 3,000-gallon tank. The pump is a 40 horsepower turbine type with a 60-foot setting plus a 10-foot suction pipe and is capable of delivering 650 gallons of water per minute. The well is drilled to 250 feet in depth. Morrow Development Company is fundamentally a land company in that it was organized and operates for the purpose of subdividing, developing, buying and selling real estate. It is not a water company and has no personnel experienced in the operation of a water distribution system. ✓

#### Sierra Water Company

Applicant Sierra Water Company is a California corporation, having its principal place of business in Ceres, Stanislaus County; it was organized for the primary purpose of furnishing domestic water to the aforementioned area. Its Articles of Incorporation, as amended, authorize the issuance of 1,000 shares of common stock of the aggregate par value of \$100,000.00, the par value of each share being \$100.00 per share. None of said shares is issued or outstanding, nor has the issuance of any such shares been authorized.

Specific Authority Requested

Specifically, authority is sought in this application to approve the transfer of this water system, and the ground upon which it is situated, from Morrow Development Company to the Sierra Water Company in accordance with the terms of the agreement between the parties dated July 1, 1957, set forth in Exhibit "F" of said application. In order to enable Sierra Water Company to pay for this system, authority is requested by said company to issue 580 shares of its common stock, a total of \$58,000.00, to the seller, Morrow Development Company. Sierra Water Company also desires to issue 20 shares of its stock to its president, John Howard, in exchange for cash in the amount of \$100.00 per share, or a total of \$2,000.00. The cash received by the corporation is expected to be used to purchase miscellaneous equipment and service.

Further, Sierra Water Company requests that, upon consummation of the transfer, the Commission grant to it a certificate of public convenience and necessity to operate a public utility water company in said area. Applicant further requests that a flat rate water service charge for service by applicant in said tract in the amount of \$4.50 per month for each single-family residential service connection be approved. By virtue of an amendment to the application, filed September 4, 1957, said company also requests that the Commission approve a flat rate charge of \$1.00 per month per hydrant to the City of Stockton for water service proposed to be served to the 9 fire hydrants located in said tract.

Hearing

Public hearing was held in Stockton on September 16, 1957, at which time oral and documentary evidence was produced by the

applicants. No persons or companies appeared to protest the application; consumers of the water service in the tract were notified by mail of the date and place of said hearing. Members of the staff of this Commission appeared and cross-examined applicants' witnesses but offered no evidence in opposition to the application.

Evidence Presented

Evidence produced at the hearing in justification of the application indicated, among other things, that there is no other water company that is willing to undertake the distribution of water in this subdivision. It appears that the present capacity of the system is adequate for water delivery to the present residents and to future consumers of Unit No. 1. However, the following order will require notice to the Commission after service is commenced to the 120th customer or by no later than December 31, 1959 showing that the water supply continues to meet the requirements of General Order 103. The subdivision consists of residential homes only and there is no school, commercial, business or industrial development in the tract although there is a commercially-zoned parcel adjacent to it. The management, maintenance and repair of the system will be handled on a part-time basis primarily by its president who plans to commute from Ceres to Stockton twice a week in order to service same. Fifty minutes was the estimated commuting time given between said points. The president proposes to utilize the services of a resident presently occupying a home on the tract for the purpose of assisting him in handling complaints and servicing the equipment when he is not available. Upon approval of this application, the applicant intends to have its local office listed in the Stockton telephone directory under the name of said resident in order that service complaints may be made in

Stockton. However, it is proposed that all water service bills be paid by mail. The following order will direct that a local representative be retained for the purpose of receiving customer inquiries and personal payments of monthly bills on a part time basis.

Said president has been operating a similar public utility water company serving 384 connections in Ceres for the past 18 months; it is claimed that the operation of said system is similar in scope to the operation contemplated in this application. Testimony was presented to the effect that the Ceres operation has been satisfactory to the public. Said company holds a certificate from the Commission to operate a public utility water system in said city.

Testimony was received to the effect that the Health Department of San Joaquin County has made bacteriological tests and has found the water supply of Sierra Water Company satisfactory.

Applicant declared that the over-all cost of the utility plant is \$58,022.21<sup>1</sup> as of June 30, 1957, and that, as of that date, the company had \$2,000.00 cash on hand and no debts. From the record it appears that the applicant did not record depreciation or depreciation reserve nor was an estimate of future operating costs for a 12-month period produced. Accordingly, there was not sufficient evidence presented to determine a rate of return based upon the proposed rates.

#### Proposed Rates

The flat rate proposed, as noted, is somewhat different from the prevailing rates charged by comparable utilities under similar conditions in the San Joaquin Valley. This proposed system has no experience of its own and the Commission will therefore authorize flat

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1. Exhibit "E".

rates which more nearly conform to the prevailing rate levels in the area, taking into consideration the special factors of this operation. Applicants proposed no metered rates in their application at this time but requested, at the hearing, that the Commission fix such rates. This will be done. Applicant proposed a rate of \$1.00 per month for fire hydrants but offered no evidence as to the conditions for such service. For this reason, the Commission will authorize a fire hydrant service rate schedule which will provide for either utility or public authority ownership of the fire hydrants.

Inasmuch as this is a new service, the rates charged by applicant may be reviewed by this Commission at any subsequent time in order to determine whether or not these rates are resulting in reasonable charges and a reasonable return.

#### Findings and Conclusions

After consideration of the record herein, the Commission is of the opinion and finds that public convenience and necessity require: (1) That authorization be granted to transfer the aforesaid water system from Morrow Development Company to applicant Sierra Water Company and that Sierra operate said system in the territory herein described. (2) That Sierra Water Company may issue 580 shares of its common stock to Morrow Development Company as consideration for said transfer, and 20 shares of its common stock to John Howard in exchange for \$2,000.00 in cash. The Commission is also of the opinion and finds that the property, labor or money 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 action taken herein shall not be construed to be a finding of the value of the property

to be acquired with the stock herein authorized to be issued. (3) That the requested certificate be granted to Sierra Water Company to operate in said Sierra Meadows Tract subject to the conditions and restrictions set forth in the order which follows. (4) That the rates attached to the following order are justified, fair and reasonable.

The certificate granted in and by the following order 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 for any amount of money in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as consideration for the issuance of such certificate of public convenience and necessity or right.

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 ORDERED as follows:

(1) That a certificate of public convenience and necessity be and it is hereby granted to Sierra Water Company, a corporation, to acquire, construct and operate a public utility system for the distribution and sale of water within the area hereinbefore described and as shown on Exhibit "C" attached to the application. The transfer of the water system from Morrow Development Company to Sierra

Water Company is hereby authorized. Upon consummation of said transfer Sierra shall notify the Commission of that fact within ten days' time thereafter.

(2) That Sierra Water Company may issue to Morrow Development Company 580 shares of its common stock as consideration for said transfer of said water system. Further, that Sierra Water Company may issue 20 shares of said common stock to John Howard in exchange for \$2,000.00 in cash.

(3) That Sierra 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.

(4) That Sierra 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 100 feet to the inch, delineating by appropriate markings the tract 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 company.

(5) That Sierra Water Company, prior to the commencement of service as herein authorized, shall certify over the signatures of



its responsible officers that it is the owner of the assets and business of the aforesaid water system 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 Joaquin County.

(6) That Sierra Water Company shall file with the Commission monthly reports as required by General Order No. 24-A of this Commission, which order, insofar as applicable, is hereby made a part of this order.

(7) That Sierra Water Company shall notify this Commission, in writing, of the date service is first furnished to the public under the rates and rules authorized herein, within ten days thereafter.

(8) That Sierra Water Company shall determine the accruals for depreciation by dividing the original cost of the utility plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the plant. Applicant shall review the accruals as of January first of the year following the date service is first rendered to the public under the rates and rules authorized herein and thereafter when major changes in utility plant composition occur and at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.

(9) That Sierra Water Company shall file, within ten days after commencing service to its 120th customer or by December 31, 1959, whichever is earlier, a written report on the adequacy of its service, as provided for by General Order No. 103, including such items as the size and depth of the well or wells developed, the quantity of water obtainable therefrom, the size in horsepower of the pumping unit or units installed and the capacity in gallons per

minute thereof against the distribution system pressure, the limits of the operating pressures of the system and the number of customers served.

(10) That Sierra Water Company shall make arrangements for a representative or representatives in the City of Stockton or the Sierra Meadows Tract for the purpose of receiving customer inquiries and to receive personal payments of monthly bills. It is further directed that said company shall cause the telephone number of said office to be listed in the local telephone directory of the City of Stockton under the name of said company. The company shall report to the Commission in writing within ten days after completion of each of the requirements of this ordering paragraph.

(11) That Sierra Water Company shall not extend its water system outside its certificated service area boundaries without further order of the Commission.

The authorization herein granted will expire if not exercised within one year after the date hereof.

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

Dated at San Francisco, California, this 12th day of November, 1957.

[Signature]  
President  
[Signature]  
[Signature]  
[Signature]  
Commissioners

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The subdivision known as Sierra Meadows, and vicinity, located at the intersection of Sacramento Road and Hammer Lane within the corporate limits of the City of Stockton, San Joaquin County.

RATES

	<u>Per Meter per Month</u>
Quantity Rates:	
First 700 cu.ft. or less .....	\$ 3.50
Next 1,300 cu.ft., per 100 cu.ft. ....	.30
Next 2,000 cu.ft., per 100 cu.ft. ....	.25
Next 6,000 cu.ft., per 100 cu.ft. ....	.20
Over 10,000 cu.ft., per 100 cu.ft. ....	.15
Minimum Charge:	
For 5/8 x 3/4-inch meter .....	\$ 3.50
For 3/4-inch meter .....	4.50
For 1-inch meter .....	7.00
For 1-1/2-inch meter .....	12.00
For 2-inch meter .....	15.00
For 3-inch meter .....	33.00
For 4-inch meter .....	52.00

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 subdivision known as Sierra Meadows, and vicinity, located at the intersection of Sacramento and Hammer Lane within the corporated limits of the City of Stockton, San Joaquin County.

RATES

	<u>Per 1-Inch or Smaller Service Connection per Month</u>
For a single family residence, including premises not exceeding 10,000 sq.ft. in area .....	\$4.25
For each 100 sq. ft. of area in excess of 10,000 sq. ft. ....	.03

SPECIAL CONDITIONS

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

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The subdivision known as Sierra Meadows and vicinity, located at the intersection of Sacramento Road and Hammer Lane within the corporate limits of the City of Stockton, San Joaquin County.

RATES

	<u>Per Hydrant Per Month</u>
For standard type hydrants owned and maintained at the cost of:	
1. Public Authority .....	\$1.00
2. Utility.....	3.00

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.
2. The cost of installation of hydrants owned by the public authority shall be borne by the public authority.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.
4. 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.