

ORIGINAL

Decision No. 55993

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
the MIRAFLORES WATER COMPANY, INC.,
for a certificate of public convenience
and necessity; for water rates requested
in attached rate schedule; and for the
issuance of stock.

Application No. 39127

Robert L. Trapp, for applicant.

Richard P. Weldon, for Committee of Water Users
of Pabst System, interested party.

Robert C. Moeck and Sidney J. Webb, for the
Commission staff.

O P I N I O N

Miraflores Water Company Incorporated, hereinafter
referred to as applicant, is a California corporation formed on
October 18, 1956, for the purpose, among others, of furnishing domes-
tic water. By the application herein, filed on June 5, 1957, appli-
cant seeks (1) a certificate of public convenience and necessity to
construct and operate a public utility water system in territory
described as follows:

The southwest ½ of the northwest ½ and the north
270 feet of the northwest ½ of the southwest ½ of
Section 2, township 9 north, range 34 west, San
Bernardino Base and Meridian, County of Santa Barbara,
California;

- (2) to establish rates; (3) to issue 401 shares of stock; and
- (4) to issue a note secured by a deed of trust.

A public hearing on the application was held in Santa Maria on October 4, 1957, before Examiner Kent C. Rogers, and the matter is ready for decision. Prior to the hearing, notice thereof was published as required by this Commission.

General Information

Applicant filed its Articles of Incorporation with the Secretary of State of California on October 18, 1956. Its first directors and its present directors were and are Alton L. Pabst, Belva L. Pabst, and Lulu G. Pabst. The present officers of the applicant are Alton L. Pabst, president, and Belva L. Pabst, secretary and treasurer. By its articles of incorporation it is authorized to issue 1000 shares of stock having a par value of \$50 per share, to borrow money and to issue notes and execute notes giving mortgages or deeds of trust as security therefor.

History of the Proposed Service Area

The proposed service area comprises approximately 50 acres of land lying about 5 miles south of Santa Maria (Exhibit E on the application). The following matters are alleged in the application:

In March, 1947, Alton L. Pabst and Belva L. Pabst, husband and wife, purchased approximately 7 acres of land located in the southwest $\frac{1}{4}$ of the northwest $\frac{1}{4}$ of Section 2, Township 9 North, Range 34 West, SBB&M, in Santa Barbara County. Shortly thereafter they drilled a well and installed a pump, tank house and an elevated storage tank under arrangements with adjoining landowners to service and supply water to the individuals contributing financially to the installation of the water system to be operated as a mutual. In subsequent years the Pabsts found it necessary to purchase most of

the remainder of said southwest $\frac{1}{2}$ to protect their investment in said water system as said adjoining owners failed to keep commitments to share in the construction and maintenance. The Pabsts thereafter found it necessary to subdivide a portion of said property to recoup capital outlay made in buying the surrounding land and having to bear the entire expense of the water system.

That thereafter water was furnished as an accommodation to persons purchasing lots after subdivision by the Pabsts. This practice continued as additional lots were subdivided and sold until, at the time of the hearing herein, the entire holdings of Pabst have been subdivided. At the present time there are 80 lots in the tract and houses have been or are being erected on 49 thereof and water is being furnished thereto.

At the hearing, two of the Pabst water users gave evidence intended to show that the existing system is a mutual company and the water users have an interest in the assets.

Mr. Harvey Holman testified that he owns a lot in the tract and that he paid \$1400 therefor plus \$200 towards the cost of the water system.

Mr. Perino Merlo testified that he owns two lots in the tract and when he purchased them from the Pabsts it was stipulated that he paid \$1000 for each lot plus \$200 per lot for water.

Opposed to the testimony of these men was the testimony of Robert Harsin that he owns two lots in the tract; that he originally purchased 20 acres in 1947; and that he subsequently sold them to the Pabsts, retaining two lots with the understanding that the two lots would be furnished with water by the Pabsts the same as any other lot in the tract.

The testimony of the two witnesses claiming an interest in the system was weakened on cross-examination. It would appear from the record that a real controversy exists as to the ownership of the water company assets but that the Pabsts are the record owners of the system and appurtenances.

Description of the Water Supply and System

The applicant requests authority to issue 401 shares of stock in the aggregate par value of \$20,050, and a promissory note secured by a deed of trust on the real property of the system to the Pabsts in exchange for the physical assets of the company, together with working cash. All debts of the system were allegedly paid as of January 1, 1957.

There are two wells in the system. Each is located on property in the tract. Well No. 1 is a 10-inch 260 feet deep well equipped with a 7½-hp submersible pump. Well No. 2 is a 10-inch 350 feet deep well equipped with a 7½-hp electrically driven deep

well pump. As presently equipped these wells produce a total of 185 gallons of water per minute and, according to the staff, are capable of producing 500 gallons of water per minute. The storage facilities consist of a 50,000-gallon redwood tank at well No. 1, and a 15,000-gallon concrete reservoir at well No. 2. A booster pump at well No. 2 boosts the water into the 50,000-gallon storage tank. In addition, at well No. 1 there are three booster pumps and a 2000-gallon pressure tank set to maintain pressure at 40-pounds per square inch. These three booster pumps are so connected that their combined capacities will amount to approximately 340 gallons of water per minute at 40 pounds pressure or up to 500 gallons per minute at 30 pounds of pressure. A system of 3-, 2-, and 1½-inch mains, totaling approximately 6600 feet in length, is used to distribute the water. All services are metered and there are only domestic consumers in the tract. Six fire hydrants have been installed.

The staff engineering witness was of the opinion that the water supply and system are adequate for a maximum potential development of 90 customers.

Applicant's president testified that when the area served by the system was subdivided, provisions were made for easements and rights of way for all public utilities and no further franchise or permit is required. The applicant has a water supply permit issued by the State Board of Health.

From the record herein it appears that the water supply, water system and storage facilities are adequate for approximately 90 consumers.

The Request for Authority to Issue Stock
and to Incur an Indebtedness

The record herein shows that Alton L. Pabst and Belva L. Pabst, husband and wife, originally owned the land comprising the present service area proposed to be acquired by Miraflores Water Company, Incorporated. They also built the water system therein. They have sold approximately 50 of the 80 lots in the present service area. Miraflores Water Company, Incorporated, applicant herein, requests authority to issue 401 shares of its \$50 par value stock, of an aggregate par value of \$20,050. Two hundred of these shares are to be issued to Alton L. Pabst, 200 shares are to be issued to Belva L. Pabst, and 1 share is to be issued to Lulu G. Pabst. In addition, applicant seeks authority to issue to Alton L. Pabst and Belva L. Pabst, or order, a promissory note in the face amount of \$20,230, payable on demand, with interest from January 1, 1957, until paid, at the rate of 8 per cent per annum (Exhibit J on the application). This note is to be secured by a deed of trust on the real property of the water system (Exhibit K on the application).

The applicant appraised the utility plant as having a depreciated value on January 1, 1957, of \$38,659.45, including intangible plant valued at \$1300 (Exhibit C on the application). It claimed at that date materials and supplies valued at \$1,120.55 and \$500 cash on hand for a total claimed value of assets of \$40,280. On the same date the staff appraised the utility plant, including

organization expenses, as having a depreciated cost of \$36,400 (pages 8 and 9, Exhibit No. 5), and materials and supplies of \$750.

It is not necessary that the applicant secure authority from this Commission to issue the referred to note inasmuch as the note is a demand note, and not, on its face, payable more than 12 months after the date of issuance (Section 818, Public Utilities Code). The deed of trust to be given as security for the note requires authorization from this Commission prior to its issuance (Section 851, Public Utilities Code). The applicant will be authorized to issue the stock and to execute the deed of trust as requested.

Rates

The applicant has proposed metered and flat rates as follows:

<u>Quantity Rates</u>	<u>Per Meter Per Month</u>
First 1000 cu.ft. or less	\$ 4.00
Next 1000 cu.ft., per 100 cu.ft.30
Next 2000 cu.ft., per 100 cu.ft.20
Over 4000 cu.ft., per 100 cu.ft.10

Minimum Charges

For 5/8 x 3/4-inch meter	\$ 4.00
For 3/4-inch meter	7.00
For 1-inch meter	9.00
For 1½-inch meter	11.00
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.

Special Conditions

During construction, when a meter or a meter box might be inconvenient, temporary water service may be furnished on an unmetered, flat-rate basis as follows:

For each single family residence under construction, including premises not exceeding 22,000 square feet - \$4.00 per month.

The above flat-rate charge applies to services not larger than 1-inch in diameter.

There are 45 active service connections. The staff estimated a maximum potential of approximately 90 consumers in the requested service area.

According to the staff, the applicant will have a rate of return of only .63 per cent at the proposed rates (Exhibit 5, page 10).

The staff witness stated that the system will, for the immediate future, show a substantial loss. At the proposed rates the system will show only a small return on the investment but as the area builds up the return should increase as all mains and storage facilities necessary to serve the area have been installed.

The Staff's Report

The staff studied the proposal and made several recommendations. These recommendations appear reasonable and were not objected to by the applicant. They will be incorporated in the order herein.

Conclusion

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 the 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 stock herein authorized is reasonably required for the purposes set forth herein and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income.

We find that the rates and charges authorized herein are justified.

O R D E R

Application having been filed, a public hearing having been held thereon, and the Commission having made the foregoing findings, and based upon said findings,

IT IS HEREBY ORDERED as follows:

(1) That a certificate of public convenience and necessity be and it hereby is granted to Miraflores Water Company Incorporated, a corporation, to acquire, construct and operate a public utility water system within the area described in the opinion herein.

(2) That applicant is authorized and directed to file, after the effective date of this order, the rates set forth in Appendix A attached hereto, to be effective on and after January 1, 1958, together with rules acceptable to this Commission and in accordance with the requirements of General Order No. 96. Such rates and rules shall become effective on one day's notice to the Commission and to the public after filing as hereinabove provided.

(3) That applicant shall file within sixty days after the effective date of this order four copies of a tariff service area map, acceptable to this Commission and in accordance with the requirements of General Order No. 96. Such tariff service area map shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

(4) That applicant shall file within ninety days after the effective date of this order, 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 this certificate is issued; the sources of water supply and distribution facilities and the location of the various properties of the applicant.

(5) That beginning with the year 1957 applicant shall determine depreciation expense by multiplying the depreciable utility plant by a rate of 3.3 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 when major changes in utility plant composition occur and at intervals of not more than five years and revise the above rate in conformance with such reviews. Results of such reviews shall be submitted to the Commission.

(6) That applicant may issue not to exceed 401 shares of its \$50 par value stock to the persons and for the purposes indicated in the foregoing opinion.

(7) That applicant may encumber its utility property by executing a deed of trust thereon to secure a demand note in the face amount of not to exceed \$20,230, payable on demand, to Alton L. Pabst and Belva L. Pabst, or order, with interest on the unpaid balance at a rate of not to exceed 8 per cent per annum.

(8) That the applicant shall place in the classified section of the local telephone directory under its name information showing where emergency service can be obtained and shall notify this Commission, in writing, of making such arrangements within thirty days after the effective date of this order.

(9) Miraflores Water Company Incorporated, shall file with the Commission its proposed journal entries to record on its books the acquisition of the properties of Alton L. Pabst and Belva L. Pabst, such filing to be made within six months after such acquisition.

(10) 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 hereof.

(11) That the authorization herein granted shall 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 16th day of December, 1957.

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

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area including Miraflores Subdivision, Siler Tract and Davis Tract, and vicinity, comprising approximately 50 acres, located approximately 5 miles south of the City of Santa Maria, Santa Barbara County.

RATES

	<u>Per Meter per Month</u>
<u>Quantity Rates:</u>	
First 1,000 cu.ft. or less	\$ 4.00
Next 1,000 cu.ft., per 100 cu.ft.30
Next 2,000 cu.ft., per 100 cu.ft.20
Over 4,000 cu.ft., per 100 cu.ft.10
<u>Minimum Charge:</u>	
For 5/8 x 3/4-inch meter	\$ 4.00
For 3/4-inch meter	7.00
For 1-inch meter	9.00
For 1 1/2-inch meter	11.00
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.

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Schedule No. 9FC

CONSTRUCTION FLAT RATE SERVICE

APPLICABILITY

Applicable to flat rate water service furnished for building construction.

TERRITORY

The unincorporated area including Miraflores Subdivision, Siler Tract and Davis Tract, and vicinity, comprising approximately 50 acres, located approximately 5 miles south of the City of Santa Maria, Santa Barbara County.

RATE

Per Month

For each service connection \$ 4.00

SPECIAL CONDITIONS

1. The above construction flat rate charge applies to service connections not larger than one inch in diameter.
2. Service under this schedule will be furnished only during the initial construction period of a building or residence, and in no event for longer than six months.