

ORIGINAL

Decision No. 56158

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 GREAT WESTERN WATER SERVICE, a)
 California Corporation, for issuance)
 of a Certificate of Public Convenience)
 and Necessity; to establish rates to)
 serve water as a public utility water)
 company to that property described as)
 Section 4 and the W $\frac{1}{2}$ of Section 3,)
 T8N, R13W, S.B.B.&M.; to authorize)
 the purchase of existing water pro-)
 duction facilities located in said)
 Section 4 and the W $\frac{1}{2}$ of Section 3,)
 T8N, R13W, S.B.B.&M. presently owned)
 by the Southwest Building and Investment)
 Company by issuance of securities and/or)
 notes.)

Application No. 38642
(Amended)

Gray and Guy, attorneys, by Arthur D. Guy, Jr.,
for applicant.

Richard R. Entwistle and Donald B. Steger for
the Commission staff.

O P I N I O N

Great Western Water Service, by the above-entitled appli-
 cation, filed December 3, 1956, as amended on December 3, 1957, seeks
 a certificate of public convenience and necessity to acquire, con-
 struct, extend, and operate a public utility water system in the area
 known as the Tullos Ranch comprising all of Section 4 and the W $\frac{1}{2}$ of
 Section 3, T8N, R13W, SBB&M, in unincorporated territory of Los
 Angeles County, about 10 miles northwest of the community of Lancaster.
 Establishment of rates for water service, and authority to issue
 stock are also sought.

Public hearings were held before Examiner Stewart C. Warner on November 12 and 13, 1957, at Lancaster. The matter was consolidated for hearing with Application No. 38322 of Herman C. Sommer, doing business as Deep Well Water Company, which was temporarily removed from the calendar at the request of the applicant; Application No. 39092 of Berto A. Olson, an individual, for a certificate of public convenience and necessity to construct and operate a public utility water system in an area about two miles south of the Tullos Ranch; Application No. 37874, as amended, of the applicant herein, for a certificate of public convenience and necessity to acquire, construct, and operate a public utility water system in its so-called Kent Ranch area; and Application No. 39161 of Pearland Water Company, for a certificate of public convenience and necessity to construct and operate a public utility water system in an area northeast of Palmdale. The instant application was submitted for decision subject to the filing of an amendment thereto setting forth the revised proposed financing of the acquisition of certain water system facilities owned by Howard Kent, the former owner of the Kent Ranch, and president of Southwest Building and Investment Company, its subdivider. There were no protests to the granting of the instant application.

General Information

By Decision No. 53985, dated October 30, 1956, in Application No. 38394, applicant herein was authorized to acquire the water system owned and operated by Warren O. Wagner, an individual, doing business as Great Western Water Service. By Decision No. 52534, dated January 31, 1956, in Application No. 37453, Warren O. Wagner had been authorized to acquire the water system owned and operated

by Chester C. Bagstad, an individual, who had been granted a certificate of public convenience and necessity to operate a public utility water system by Decision No. 43582, dated December 6, 1949, in Application No. 30425. This water system, together with the adjacent former Desacres Water system, acquired by applicant pursuant to authority granted by Decision No. 54629, dated March 5, 1957, in Application No. 38630, comprise applicant's present service area, its so-called Westmont District.

Description of Area, Present and Proposed Water System,
and Proposed Financing

Applicant's Westmont District comprises approximately 530 acres about three miles south of Palmdale and four miles west of Littlerock in Antelope Valley.

The area sought to be certificated herein comprises 960 acres which Southwest Building and Investment Company is engaged in subdividing into 375 2½-acre parcels. Applicant has prepared engineering drawings of a water system, the details of which are delineated on the map, Exhibit No. 2. Said exhibit shows the presently installed water system in R.S. 2355 and the proposed water system installation in R.S. 2394 and 2398. The subdivider has installed the first unit of storage and pressure tank facilities, consisting of a 126,800-gallon bolted steel tank and a 10,000-gallon tank, respectively. The installation of a 30-hp pressure booster pump, valves, fittings, and pipings to connect this system to the deep-well pump located at well No. 1, nearby, is completed. Water mains are to be installed from the wells to the tank site, and the subdivider has purchased 30,000 feet of 6- and 8-inch welded steel pipe and has stored said pipe in a warehouse at Riverside, California. The witness Kent testified

that 75 percent of the land comprising the Tullos Ranch had been sold; that no firm request for water service had been received from prospective customers, but that all land purchasers had been assured that water would be made available to their lands within 60 days; that streets had been cut through a portion of the area; that the subdivider would be willing to sell all pipe in the warehouse to applicant, at cost, for cash, stock, or bonds; that the area was formerly an alfalfa farm with excellent soil; that the ranch was located between Avenue A and Avenue B between 65th Street West and 80th Street West; that because of extremely high overhead it had become uneconomical to farm alfalfa in this portion of Antelope Valley; that farm labor costs, because of the competition of aircraft and government industries which had moved into Antelope Valley, had increased, and that the supply of farm labor had become deficient; that electric power rates had increased recently; that taxes on land had gone up; and that alfalfa growers could not compete with San Joaquin Valley growers who had lower labor, water, and land costs.

An engineering witness for applicant, its vice president, and a member of the firm of Warren O. Wagner & Associates, engineering consultants, testified that applicant proposed to acquire and install the water system in the Tullos Ranch in progressive stages; that the area around well No. 1 would be developed and domestic water service furnished to that area, first; that all water service connections would be metered; that there were at present five wells on the ranch which could be acquired by applicant for its use; and that applicant would submit a new plan for financing the acquisition of the water supply and water system facilities as an amendment to the original application.

A Commission staff engineering witness submitted a report, Exhibit No. 4, which shows that the presently installed pumping plant capacity of well No. 1 (150-hp pumping unit) was 1,716 gallons per minute according to a Southern California Edison Company test in September, 1956; well No. 2 (100-hp pumping unit) 1,188 gallons per minute; well No. 3 (100-hp pumping unit) 888 gallons per minute; well No. 4 (75-hp pumping unit) 815 gallons per minute; and well No. 5 (100-hp pumping unit) 907 gallons per minute; a total of 5,514 gallons per minute of pumping capacity with presently installed pumping units.

Applicant, in its amendment to the application, proposes to issue to Southwest Building and Investment Company, in accordance with the undated and unexecuted Contract for Sale and Option to Purchase Certain Water Facilities Located on Tullos Ranch, attached to said amendment to the application as Exhibit F, its cumulative 3 percent preferred stock, at its par value, to the extent of approximately \$35,000, to be issued generally in the amount of \$10,000 the first year, \$12,500 the second year, \$12,500 the third year, or its pro-rata equivalent, in consideration of the purchase by applicant from Southwest of the water system facilities set forth in the six-page Appraisal of Existing Facilities, as of January 1, 1957, attached to the amendment to the application as Exhibit G. Said existing facilities include well No. 1 with easements, booster plant site No. 1, a deep well turbine pump to be at least 35-hp in size complete with auxiliary appurtenances for turnkey operation, a 126,800-gallon capacity bolted steel storage tank, a 30-hp vertical short coupled turbine booster unit, an 11,300-gallon hydropneumatic tank, and plant

pipng and supply main from well No. 1 to booster plant No. 1. Further additions to the distribution system are to be financed by subdivider's advances according to applicant's regularly filed main extension rule, as development progresses.

Contained in the contract, Exhibit F, is an option on behalf of applicant to purchase in whole, or in part, at any time, all other water production storage and pumping facilities which are existing or are to be installed by the subdivider on Section 4 and the $W\frac{1}{2}$ of Section 3, not included in the original purchase price. The principal period of said option is for 5 years with provisions for renewal of option for additional 5-year periods, but not to exceed a total of 20 years. The method of payment for exercise of option is to be by applicant's cumulative 3 percent preferred stock, at its par value, the precise principal amount to be on the final determined and approved purchase price.

In its original application, applicant sought authority to issue its common stock for the face amount of \$18,099 to Warren O. Wagner and Associates, consulting engineers, in payment for professional and technical services rendered by said Wagner and Associates to applicant in connection with the planning, design

and testing of the presently installed water system herein being considered and the water system proposed to be installed.

The detailed composition of the requested common stock authorization is based on the estimated cost of the water system when it has been completely installed, and such detail is shown in Exhibit C of the original application. No detail of the requested common stock authorization based on the application as amended has been submitted by applicant.

The record shows that the sources of water supply available to applicant for water service to the Tullos Ranch are more than ample for present and immediately foreseeable needs.

Rates

The rates for water service proposed by applicant herein are as follows:

GENERAL METERED SERVICE

Quantity Rates:	<u>Per Meter Per Month</u>
First 1,000 cu. ft.	\$ 3.50
Next 1,000 cu. ft., per 100 cu. ft..20
Next 1,000 cu. ft., per 100 cu. ft..18
Next 2,000 cu. ft., per 100 cu. ft..15
All Over 5,000 cu. ft., per 100 cu. ft..10

Other Evidence

Exhibit G attached to the amendment to the application is a consolidated pro forma balance sheet as of September 30, 1957, of applicant, including its present Westmont system and its proposed

Kent Ranch (Application No. 37874, Amended) and Tullos Ranch systems
as follows:

BALANCE SHEET

Consolidated Pro-Forma Including
Westmont, Kent Ranch and Tullos Ranch Systems

ASSETS

Accounts Receivable 9/30/57	\$	52.00	
Cash in Bank		2,322.10	
Utility Plant @ Historical Cost			
Westmont System	\$171,547.40		
Kent Ranch System	88,100.26		
Tullos Ranch System	<u>37,041.80</u>		
	Total Utility Plant at Cost	296,689.46	
Land Sales Contracts and Trust Deeds		195,222.81	
Earned Surplus (Deficit)		<u>9,697.79</u>	
	Total Assets		\$503,984.16

LIABILITIES

Accrued Liabilities			
*due Warren O. Wagner for payment of materials, supplies and current liabilities outstanding		20,000.00	
Stock Outstanding			
Class A Common 8,209.344 shares @ \$10 per share		82,093.44	
Class B Common 19,814.759 shares @ \$10 per share		198,147.59	
3% Cumulative Preferred 4,264.624 shares @ \$10 per share		46,646.24	
Other Indebtedness			
3% income bonds, face value		12,324.86	
Advances in aid of construction		28,450.88	
Due Emerson & Henderson for purchase of Desacres Water Company Stock		36,009.51	
Capital Surplus (Alpine Butte Water Co. Distribution Mains)		10,216.76	
Depreciation Reserve		31,688.88	
Contributions to Capital** W. O. Wagner, Great Western Land Co., W. O. Wagner & Assoc.		<u>42,406.00</u>	
			\$503,984.16

*Payment guaranteed by W. O. Wagner personally,
a portion of which authorization of stock or
security issue is expected.

**Monies spent for capital improvement not covered
by issuance of capital stock.

Findings and Conclusions

The Commission, after a careful review of the record herein, finds as a fact and concludes that public convenience and necessity require that the application for a certificate of public convenience and necessity be granted; that the issuance of 3 percent preferred stock be authorized; and that issuance of common stock to Warren O. Wagner and Associates not be authorized until applicant, by supplemental application hereto, shall have submitted an accurate and detailed statement of the basis of the requested authorization of common stock. The certificate of public convenience and necessity granted hereinafter will be 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.

The action taken herein shall not be construed to be a finding of the value of the property herein described.

The Commission finds as a fact and concludes that, in order that applicant shall not overextend its water system in the Tullos Ranch beyond its source of water supply capacities and its financial abilities, the public interest requires that applicant be ordered

not to extend its water system outside the boundaries of the area hereinafter certificated in the Tullos Ranch without further order of the Commission.

Applicant's proposed rate structure is not in general conformance with the rates of other public utility water service in the proposed area in Antelope Valley. The order hereinafter will authorize applicant to file a schedule of rates which reflect a more reasonable type for the proposed service.

O R D E R

Application as amended having been filed, public hearings having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED as follows:

1. (a) That Great Western Water Service, a corporation, be, and it is, granted a certificate of public convenience and necessity to acquire, construct, extend, and operate a water system in all of Section 4 and the W $\frac{1}{2}$ of Section 3, T8N, R13W, SBB&M, known as the Tullos Ranch, in unincorporated territory of Los Angeles County in the area shown on Exhibit No. 2 filed at the November 1957 hearings.
- (b) That applicant shall not extend its water service outside the area certificated herein without further order of the Commission.
2. (a) That applicant be, and it is, authorized to issue 3,500 shares of its 3 percent cumulative preferred stock in the total amount of \$35,000 to Southwestern Building and Investment Company over a 3-year period after the effective date hereof in consideration of the acquisition by applicant of Southwest Building and Investment Company's existing water system facilities in the Tullos Ranch as shown on Exhibit G attached

to the first amendment to the application, and substantially in accordance with the terms of the undated, unexecuted contract attached to said first amendment as Exhibit F.

- (b) That applicant not be authorized to issue its common stock to Warren O. Wagner and Associates for professional services until such time that applicant, by supplemental application hereto, shall have submitted an accurate and detailed statement of the basis of the requested authorization of common stock. Upon the filing of such supplemental application, the Commission will issue its further order or orders as appropriate.
3. That applicant be, and it is, authorized to use the proceeds from the issuance of the 3 percent preferred stock authorized hereinabove for the purposes set forth in the preceding opinion, the Commission being of the opinion that the money, property, or labor to be procured or paid for by the issue of the preferred stock, herein authorized, is reasonably required by applicant for the purposes specified herein and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income.
4. That the foregoing authorization is without prejudice to the authority of this Commission with respect to rates, service, accounts, valuation, estimates, or determinations of cost which may come before this Commission.
5. That applicant shall file with the Commission monthly reports as required by General Order No. 24A, which order, insofar as applicable, is made a part of this order.
6. (a) That applicant 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 in the service area certificated herein on or before the date service is first rendered to the public, together with revised rules and tariff service area maps to include the area certificated herein, in a manner acceptable to this Commission and in accordance with the requirements of General Order No. 96. Such rates, rules and tariff service area maps shall become effective upon five days' notice to the Commission and to the public, after filing as hereinabove provided.

- (b) That applicant, within ten days after the system in the area certificated herein is placed in operation under the rates and rules authorized herein, shall notify the Commission in writing of the date when such operation began in said area.
- (c) That applicant shall file, within forty days after the system in the area certificated herein is placed in operation under the rates and rules authorized herein, four copies of an appropriate comprehensive map of said area, drawn to an indicated scale not smaller than 600 feet to the inch, delineating by appropriate markings the various tracts of land and property served; the principal water production, storage and distribution facilities; and the location of the various properties of applicant.
7. That applicant 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 for each plant account and at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.
8. That applicant be, and it is, authorized to exercise the option to purchase all other water production facilities of Southwest Building and Investment Company, together with additional storage and pumping plants, which are existing or are to be installed by Southwest on Section 4 and the W $\frac{1}{2}$ of Section 3, T8N, R13W, SBB&M, subject to the provisions that applicant shall file a supplemental application hereto, seeking authority to issue its cumulative 3 percent preferred stock at its par value in consideration of the exercise

of said option when the precise principal amount of the consideration has been determined between applicant and Southwest Building and Investment Company.

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

Dated at San Francisco, California, this 28th day of January, 1958.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners

APPENDIX A

Schedule No. ME-1

Merridale Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area including 960 acres located south of Avenue A and westerly of 60th Street W, approximately 9 miles north-west of Lancaster, Los Angeles County.

RATES

Per Meter
Per Month

Quantity Rates:

First 1,000 cu. ft. or less.....	\$ 3.00
Next 2,000 cu. ft., per 100 cu. ft.25
Next 7,000 cu. ft., per 100 cu. ft.15
Over 10,000 cu. ft., per 100 cu. ft.10

Minimum Charge:

For 5/8 x 3/4-inch meter.....	\$ 3.00
For 3/4-inch meter.....	3.75
For 1-inch meter.....	4.50
For 1 1/2-inch meter.....	6.00
For 2-inch meter.....	9.00
For 3-inch meter.....	20.00
For 4-inch meter.....	40.00

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