

ORIGINAL

Decision No. 56589

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
HIGHLANDERS WATER COMPANY, a California
corporation, and ROBERT H. WALTER, doing
business as HIGHGROVE WATER COMPANY:

- (1) for an order authorizing the purchase of the assets of the HIGHGROVE WATER COMPANY by HIGHLANDERS WATER COMPANY and authorizing the issuance of evidences of indebtedness;
- (2) for an extension of its Certificate of Public Convenience and Necessity; and
- (3) to establish the rates of the HIGHLANDERS WATER COMPANY in the territory so requested for certification.

Application No. 39199
(Amended)

Best, Best & Krieger, by James H. Krieger and Richard Edsall, for applicant.

Willis T. Johnson, California Electric Power Company;
Simon Perliter, City of Riverside; interested parties.

John D. Reader for the Public Utilities Commission.

O P I N I O N

The Highlanders Water Company is a California corporation having its principal place of business at 3631 Tenth Street, Riverside, California, and owning and operating a public utility water corporation in the County of Riverside. The Highgrove Water Company is a proprietorship, owned and operated by Robert H. Walter, which likewise owns and operates a water distribution system in the County of Riverside. The area served by the Highgrove Water Company is to the north of and contiguous to the area served by Highlanders Water Company.

In the instant application authority is requested for an order authorizing the purchase of the assets of Highgrove Water Company by Highlanders Water Company, for authority to effect the necessary financing, for a certificate of public convenience and necessity to construct and operate a public utility water system in the Highgrove and La Cadena areas and to establish the present rate of the Highlanders Water Company in these extended areas. In an amendment to the application Highlanders Water Company asks for authority to set up on its books of account applicant's original cost appraisal of the Highgrove water system.

A public hearing was held at Riverside, California, on February 18, 1958, before Examiner Grant E. Syphers, at which time evidence was adduced and the matter submitted subject to the filing of closing statements by the applicant and the Commission staff. The statements have now been filed and the matter is ready for decision.

The Highgrove water system presently receives its water from two wells and has a ground storage reservoir in the easterly portion of the system. The testimony discloses that due to the arrangement of the system and the elevations of the territory served, the pressure of the westerly half of the system is generally adequate but in the easterly half it is not. Likewise some of the lines of the distribution system are too small and come to dead ends. As a result of these conditions it was testified that it is necessary to make certain improvements in order to establish a satisfactory water

system. If the purchase herein proposed is approved, the applicant intends to make improvements to the system in the amount of \$30,300. These proposed improvements are set out in Exhibit No. 4.

Likewise the testimony discloses that the applicant intends to install a one-million-gallon reservoir in the Highlanders system which will eliminate some of the present problems of the Highlanders system, and when tied in with the Highgrove system will also improve this system's service.. There was no opposition to the proposed sale, and testimony was presented by public witnesses in the area favoring the establishment of a public utility system in the Highgrove area and also in the La Cadena area which is adjacent thereto.

Exhibit No. 10 contains a pro forma balance sheet and a pro forma income statement showing the combined operations of the Highlanders Water Company and the Highgrove Water Company. This discloses that for the year 1957 the combined operations would have been conducted at a loss although the testimony indicates that the Highlanders Water Company is financially able to make the proposed purchase. The financial statements of the Highlanders Water Company are attached to the application and while that company operated at a loss for 1957, its assets, as disclosed by its Balance Sheet, are substantial.

The proposed sales agreement between the two companies was submitted as Exhibit No. 12. The purchase price to be paid is \$75,000, of which \$30,000 is to be paid in cash and the balance of

\$45,000 in the form of a promissory note to Robert H. Walter bearing interest at five percent with the principal payable in ten equal annual installments. Highlanders Water Company proposes to secure the \$30,000 in cash from Sun Gold, Inc., by issuing its note thereto, which note will be payable on or before May 1, 1967, and bear interest at the rate of five percent. Copies of these notes were received in evidence as Exhibits Nos. 13 and 14.

In addition to this purchase price, the Highlanders Water Company proposes to purchase from the Riverside Water Company 1,000 shares of its Class B stock for the sum of \$70,000 in cash. This \$70,000 will be borrowed by Highlanders from Sun Gold, Inc. The Riverside Water Company is a mutual water company and it is proposed to purchase the 1,000 shares of stock in order to secure additional water supply for the combined Highgrove-Highlanders system.

In relation to the financing, it should be noted that Sun Gold, Inc., is a corporation of which Mr. Walter is president. According to this record it has the financial assets to furnish the money as hereinabove indicated.

A review of all of the evidence presented in this matter discloses, and we now find, that it would not be adverse to the public interest to permit the Highlanders Water Company to purchase the Highgrove Water Company. We further find that public convenience and necessity require the issuance of a certificate to Highlanders Water Company for the construction and operation of a public utility water corporation in the territory presently served by Highgrove

Water Company and in the so-called La Cadena area. In the area for which a certificate is requested there are two mutual water companies presently providing service. One is the Stephens Water Company which presently provides service to about thirty consumers who are located entirely within the area for which a certificate is requested. The second is the Hermanos Water Company which provides irrigation water and part of whose territory is in the area herein requested. Although both mutual water companies received notice of the hearing in this matter, neither was represented at the hearing.

The testimony discloses that the La Cadena area presently does not have any public utility water service, and the evidence of record in this proceeding indicates a need and desire on the part of potential users to have service furnished by the applicant. It should be noted that the application requests a certain territory and, in addition thereto, indicates the intention to continue to serve four users whose properties are contiguous to this territory. Two of these users are residents in the so-called Mormon Hill area, one is the Hancock Brickyard, and the fourth is a station of the California Division of Highways. It is apparent that these services should be included in the service area.

As a result of this evidence and these findings, the application to purchase, the request for a certificate of public convenience and necessity, and the authority to incur the specified indebtedness will be approved in the ensuing order.

The remaining question before us concerns the request of applicant to establish rates. In the additional territory, which will be referred to hereinafter as the Highgrove system, a study presented by the applicant disclosed the following estimated results of operations of this system for the year 1957:

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Gross Revenue	\$ 25,277	\$ 32,386
Operating Expenses	17,390	17,160
Depreciation	3,450	3,450
Taxes:		
Other than Income	1,260	1,260
Income Taxes	1,040	3,450
Total Expenses	\$ 23,140	\$ 25,320
Net Operating Revenue	2,137	7,066
Rate Base	\$123,210	\$123,210
Rate of Return	1.73%	5.73%

The staff of the Commission presented a study relative to these rates for the year 1957, the results of which are as follows:

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 25,280	\$ 32,390
Operating Expenses	14,880	14,880
Depreciation	3,110	3,110
Taxes:		
Other than Income	1,190	1,190
Income Taxes	770	3,100
Total Expenses	\$ 19,950	\$ 22,280
Net Return	5,330	10,110
Rate Base	\$107,770	\$107,770
Rate of Return	4.9%	9.4%

It should be noted that the principal difference between these two estimates relates to the estimate of additions and betterments to the system. The applicant, as disclosed in Exhibit No. 4, proposes improvements totaling \$30,300. Of this amount, \$16,629 is

proposed for the installation of a 10-inch pipeline to extend approximately 4,300 feet along Citrus Street in the Highgrove system. The staff estimates did not include the cost of this pipeline. However, the testimony in this record discloses that the proposed improvements will lead to better and more reliable service in the Highgrove area. Applicant will be ordered to make such improvements and is therefore entitled to full consideration of the related costs. Applicant also plans in the future to fully integrate the facilities of the Highlanders and Highgrove systems and to supply the combined systems as one pressure zone.

With respect to estimates of operating expenses, depreciation and taxes, it is the Commission's conclusion that a total amount of \$24,000 is reasonable. When measured against revenues of \$32,390 for the year 1957 estimated and a rate base of \$123,000, a rate of return of 6.8% results. This rate of return is within the range of reasonableness for a water system of the size of Highgrove. When integrated with the Highlanders system, Applicant's Exhibit No. 11 indicates an overall company return of about 0.5 percent for the same period.

Accordingly, we find that the increases in rates and charges authorized herein are justified and that the existing rates for the Highgrove system insofar as they differ therefrom are unjust and unreasonable for the future.

O R D E R

The application as above entitled having been filed, public hearing having been held thereon, and the Commission having made the foregoing findings and based upon such findings,

IT IS ORDERED that:

(1) On and after the effective date hereof and on or before July 31, 1958, Robert H. Walter, an individual, doing business as Highgrove Water Company, may sell and transfer his water system described herein to the Highlanders Water Company, a corporation, pursuant to the agreement for the purchase and sale of this property, a copy of which is attached to the application.

(2) Highlanders Water Company, a corporation, be and it hereby is granted a certificate of public convenience and necessity to construct and operate a public utility water system in the La Cadena area and Highgrove area shown on the map attached as Exhibit "D" to the instant application.

(3) Highlanders Water Company is authorized to apply, after the effective date of this order, its presently effective tariff schedules to the areas certificated herein.

(4) Highlanders Water Company, if it acquires the property herein referred to, shall within thirty days thereafter revise its presently effective tariff schedules to provide for the application of said tariff schedules in the service area being acquired herein, together with a revised tariff service area map, in accordance with

the provisions of General Order No. 96. Such rates and revised tariff sheets shall become effective only upon five days' notice to the Commission and to the public after filing as hereinabove provided.

(5) Highlanders Water Company, if it acquires the property herein referred to, shall within sixty days thereafter file four copies of a comprehensive map drawn to an indicated scale not smaller than 400 feet to the inch, delineating by appropriate markings various tracts of land and territory served; the principal water production, storage, and distribution facilities; and the location of the various water system properties of applicant in the La Cadena and Highgrove areas.

(6) Highlanders Water Company, if it acquires the property herein referred to, shall prior to May 1, 1959 complete the proposed improvements set out in Exhibit No. 4 in this proceeding, and shall advise the Commission in writing within ten days after the completion of all of said improvements.

(7) Highlanders Water Company, for the purpose of financing the cost of the Highgrove Water Company properties and 1,000 shares of stock of Riverside Water Company, is authorized to issue notes as follows:

- a. To Robert H. Walter, or order, payable in ten equal annual installments with interest at the rate of 5% per annum . . . \$45,000
- b. To Sun Gold, Inc., or order, payable on or before May 1, 1967, with interest at the rate of 5% per annum 30,000
- c. To Sun Gold, Inc., or order payable in three equal annual installments with interest at the rate of 5% per annum 70,000,

it being the opinion of the Commission that the money, property or labor to be procured or paid for by the issue of said notes is reasonably required for the purposes specified herein, and that such purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

(8) The authority herein granted shall not be construed to be a finding of the cost or value of the properties referred to herein or as indicative of amounts to be included in a future rate base for the determination of just and reasonable rates.

(9) The authority herein granted to issue notes will become effective when Highlanders Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$145. In other respects the authority herein granted will become effective twenty days after the date hereof and, if not exercised, will expire July 31, 1958.

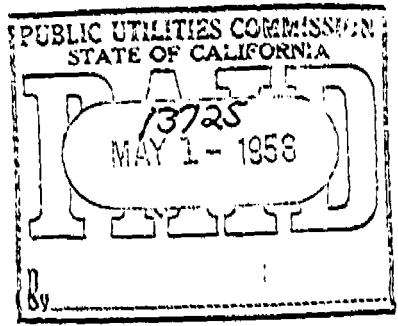
Dated at San Francisco, California, this 29th day of April, 1958.

[Signature]
President

[Signature]

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Commissioners



Commissioner Ray E. Untereiner, being necessarily absent, did not participate in the disposition of this proceedings.