

ORIGINAL

Decision No. 59327

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
HIGHLANDERS WATER COMPANY for authority
to purchase certain water distributing
facilities from the CITY OF RIVERSIDE;
for authority to issue shares; for
authority to place on its books of
account the assets so acquired; and for
approval of said contract of sale, and
the application of the CITY OF RIVERSIDE
for an order relieving said City of its
obligation to furnish water service from
said facilities.

Application No. 40903

Best, Best & Krieger, attorneys, by James H. Krieger,
for Highlanders Water Company; and Everett C. Ross,
manager, Department of Light and Power, and
Leland J. Thompson, assistant city attorney, for
the City of Riverside; applicants.
Richard R. Entwistle and Donald B. Steger for the
Commission staff.

INTERIM OPINION

Highlanders Water Company, a corporation, by the above-
entitled application, filed on March 5, 1959, seeks authority to
acquire certain water system facilities from the City of Riverside,
and to issue shares of stock in consideration thereof; and the City
of Riverside seeks relief from a stipulation to continue to furnish
water service outside its city limits which was a condition placed
by the Commission in Decision No. 1003, dated October 8, 1913, in
Application No. 716. Highlanders also seeks authority to place on
its books of account, the water system assets acquired, and seeks
approval of the Agreement dated December 23, 1958 between the City
of Riverside, Sun Gold, Inc., a subdividing corporation which con-
trols Highlanders, a copy of which said Agreement is attached to the
application as Exhibit "A", and Highlanders.

A public hearing was held before Examiner Stewart C. Warner on July 21, 1959, at Riverside. No protests to the granting of the application were entered at the hearing and the matter was submitted subject to the receipt of a map, late-filed Exhibit No. 3, and a memorandum brief, which said exhibit and brief were received on July 30, 1959, and the matter is now ready for decision.

The applicant Highlanders was granted a certificate of public convenience and necessity to construct and operate a public utility water system in an area east and north of the city limits of Riverside by Decision No. 52736; dated March 6, 1956, in Application No. 37069 Amended. Its certificated area was expanded by Decisions Nos. 53127, dated May 23, 1956, in said Application No. 37069 Amended, 56599, dated April 29, 1958, in Application No. 39199 Amended, and 57260, dated August 26, 1958, in Application No. 40247. Authority to issue stock or notes for the acquisition of water system facilities was granted by said decisions and rates for water service were established. The applicant's present certificated and dedicated service areas are delineated by blue, yellow, red, and brown lines on the map, Exhibit No. 3. Also shown are the locations of Highlanders' wells, booster pumps, storage tanks and reservoirs, and transmission and distribution pipelines together with the locations of wells of the Riverside Water Company, a mutual water company, and its principal transmission pipelines which constitute the principal sources of water supply available to Highlanders.

By Decision No. 1003 (supra), the City of Riverside was required, as a condition to the granting of the application, to stipulate that it undertake and agree to accept and take certain domestic water system properties located in the so-called La Cadena area outside the limits of the City of Riverside conveyed to said city by Riverside Water Company, then a public utility water corporation

subject to the jurisdiction of this Commission, subject to all legal claims for water which might have been enforced against said Company, including such claims as existed in territory outside of said limits, and said City undertook and agreed to furnish water for domestic purposes to all such persons possessing such claims. Such water service has been continued by the City of Riverside. The number of water customers now served by the City outside its limits in the La Cadena area totals 185. The record shows that since December 22, 1927, pursuant to an official city policy, all connections to the domestic water system of the City of Riverside outside the city limits have been made and given only as a temporary measure and only on written contract; which said contracts restricted water service to the lot served, restricted the size of the water service and the meter, and contained other restrictions of water service. On March 15, 1946, the City adopted a policy which discontinued any additional temporary water service connections to non-resident property owners seeking domestic water service outside the city limits.

By the instant application the City of Riverside seeks to be relieved of its obligation of water service outside its city limits in the La Cadena area, and Highlanders seeks authority to purchase the water system assets listed in Exhibit "B" and Exhibit "C" of the Agreement, Exhibit "A", attached to the application for the negotiated purchase price of \$42,875. The terms of said Agreement, Exhibit "A", provide that Sun Gold, Inc., will transfer 245 shares of the capital stock of The Gage Canal Company, a mutual water company, to the City of Riverside, and Highlanders will issue and deliver to Sun Gold, Inc., 4,290 shares of its capital stock of the par value of \$10 per share, all in exchange for the assets transferred to Highlanders by the City. Said Agreement also provides that the City shall have an option to repurchase from Highlanders, at cost,

as set out in said Exhibit "B" and Exhibit "C" attached to said Exhibit "A", minus an annual depreciation of two percent, all of the assets transferred to Highlanders as set out in said Exhibits "B" and "C" if, as and when the City should annex the territory now served by the City, plus any extensions or improvements thereto added by Highlanders; that depreciation shall be computed on the costs as shown on Exhibit "B"; and that in the event said option is exercised by the City, at the request of Highlanders the City shall also acquire all of the additions, improvements and betterments added by Highlanders in the area now served by the City, which is the subject of the Agreement, at a price equal to replacement cost depreciated. The Agreement, Exhibit "A", also contains certain provisions germane to Sun Gold, Inc., and the City, only, with respect to the transfer of The Gage Canal Company stock. Another provision relates to availability of water by the City to Highlanders and exchange of water supplies, and the Agreement provides that Highlanders shall charge its filed tariff rates for water in the area to be served. The Agreement was signed by the mayor, by the president of Sun Gold, Inc., and by the president of Highlanders. The record shows that a public hearing was conducted before the City Council of the City of Riverside on December 23, 1958; that all consumers in the area covered by the Agreement were invited to protest, and that thereafter, by unanimous vote, the City Council approved the Agreement. The record further shows that for several years the people in the area have requested water service from the City, but that such water service has been refused.

A witness for the City testified that he had estimated the undepreciated replacement cost of the water system facilities, including mains, services, and meters, to be \$98,370, and the

depreciated replacement cost to be \$55,720. A witness for Highlanders testified that he had estimated the undepreciated historical cost, including mains and services, but excluding meters, to be \$42,817.67; and estimated the depreciated historical cost to be \$26,573.36, exclusive of meters; that such amounts were estimated based on an inventory, dates of installation, and the City's replacement cost, to which he had applied a multiplier based on Engineering News Record indices. This witness testified that historical cost records, as such, were not available and that the making of a true historical cost study would cost an additional \$4,000, approximately. The negotiated price of \$42,875 included consideration for the cost of meters.

The record shows that Highlanders is able to furnish better water service throughout the area at higher operating pressures and is able to expand the water system to include new subdivisions and other prospective water customers.

It appears that the granting of the application of Highlanders Water Company for authority to issue stock in exchange for the water system facilities of the City of Riverside would not be adverse to the public interest and the order hereinafter will so provide. It is found as a fact, however, that the estimated depreciated historical cost of \$26,573.36 for the water system facilities exclusive of meters is a reasonable purchase price representing the cost of such facilities to Highlanders Water Company when first dedicated to public use. Such latter finding is based on the facts disclosed in the record of the public utility water services obligations stipulated to and undertaken by the City as outlined hereinbefore. The present record does not permit a finding of the reasonable purchase price for the meters. It is further found as a fact that applicant's request for authority to place on its books of accounts the assets acquired from the City of Riverside is

reasonable but that, exclusive of meters, the amounts so placed on said books should reasonably be those hereinbefore found to be the reasonable purchase price for which stock presently will be authorized to be issued. The order hereinafter will provide that applicant shall enter such assets on its books in such amounts under Account 100-1, Utility Plant in Service, Sub-Account 391, Utility Plant Purchased, and that the amounts for the depreciated historical cost of meters shall be determined by the applicant and shall be submitted in writing to the Commission for review. The Commission will then determine what appropriate additional amount, if any, of stock should be authorized to be issued to cover the depreciated historical cost of meters and will then issue its final order in this proceeding.

Except for the amount of applicant's stock to be issued in exchange for the water system, it appears that it would not be adverse to the public interest to approve the contract, Exhibit "A" attached to the application, heretofore outlined, in so far as said contract binds the applicant Highlanders Water Company. Upon final disposition of this application, paragraph 7 of the contract should be revised to reflect the total number of shares of stock ultimately found to be reasonable, by the final order in this proceeding.

The Commission finds as a fact that the public interest requires that the City of Riverside be relieved of the obligation imposed upon it by Decision No. 1003, dated October 8, 1913, in Application No. 716, to continue to serve domestic water outside its city limits.

INTERIM ORDER

Application as above-entitled having been filed, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED as follows:

1. That Highlanders Water Company, a corporation, be and it is authorized to issue 2,657 shares of its capital stock of a par value of \$10 per share to Sun Gold, Inc., in consideration, pursuant to the Agreement, Exhibit "A", attached to the application, of the transfer by the City of Riverside to Highlanders of the water system properties, exclusive of meters, of the City of Riverside located outside said City's limits, as set forth in Exhibit "B" and Exhibit "C" attached to said Exhibit "A" of the application, the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of such stock is reasonably required for the purposes specified herein and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income.
2. That Highlanders Water Company, if it acquires the property herein referred to, shall within twenty days after the date hereof submit to the Commission in writing for review by the Commission the determination of the depreciated historical cost of meters to be transferred to and acquired by Highlanders.
3. That except for the amount of applicant's stock to be issued in exchange for the water system, in so far as the Agreement, Exhibit "A" attached to the application, is binding upon Highlanders Water Company, such Agreement be and it is approved.
4. That Highlanders Water Company, if it acquires the property herein referred to, shall charge to Account 100-1, Utility Plant in Service, Sub-Account 391, Utility Plant Purchased, the amount of \$26,573.36 as representing the cost of acquisition, including

incidental expenses thereto, of the water system properties, exclusive of meters, of the City of Riverside acquired through the issuance of stock heretofore authorized.

5. That Highlanders Water Company is authorized to apply, after the effective date of this order, its presently effective tariff schedules for water service furnished from the properties authorized herein to be acquired.

6. That 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 to the water service furnished to the customers from the water system facilities authorized herein to be acquired from the City of Riverside, 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 upon five days' notice to the Commission and to the public after filing as hereinabove provided.

7. That 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 the 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 acquired from the City of Riverside.

8. That if the transfer herein referred to is consummated, the City of Riverside is relieved of the obligation imposed upon it by Decision No. 1003 to continue to serve domestic water outside its city limits.

9. That the authority to issue stock herein granted will expire on March 31, 1960 if not exercised.

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

Dated at San Francisco, California, this 1st day of December, 1959.

[Signature]
President

[Signature]

[Signature]

Theodore H. Jenner

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.