

Decision No. 59726

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
PEERLESS LAND & WATER CO., INC., for
authorization to execute evidence of
indebtedness.

Application No. 41148

In the Matter of the Application of
PEERLESS LAND & WATER CO., a California
corporation, of Bellflower, California,
for certificate of public convenience
and necessity to operate and maintain
water systems in the incorporated city
of Bellflower, Los Angeles County,
California, under Section #1001 of the
Public Utilities Code
and
for authorization to issue common stock
under Section #52 of Public Utilities
Act.

Application No. 41355
Amended

Mrs. Sarah G. Zastrow, president, for applicant.
John N. Frolich, attorney, for Plunkett Water Company,
interested party.
Donald B. Steger and Richard R. Entwistle, for the
Commission staff.

O P I N I O N

Peerless Land & Water Co., Inc., by the above-entitled applications, filed May 18, 1959, and July 28, 1959, as amended August 14, 1959, respectively, seeks authority to execute two long-term non-interest bearing contracts for the purchase of water system facilities in Tracts Nos. 15316 and 17518, known as Parcel No. 9, in the City of Bellflower, Los Angeles County, and seeks a certificate of public convenience and necessity to operate a public utility water system in said parcel No. 9 and Tracts Nos. 24336, 24337, 24338, 24202, 23648, 24342, 24258, 24156, and tentative Tract No.

24871, known as Parcel No. 8, in the Cities of Bellflower and Lakewood, Los Angeles County, and authority to issue 34,395 shares of \$1.00 par value stock in the aggregate amount of \$34,395 to be used in the payment of current and accrued liabilities in connection with the water system facilities in said latter tracts and for two new wells in existing service areas. The establishment of rates for water service in Parcels Nos. 8 and 9 is also sought.

A public hearing was held before Examiner Stewart C. Warner on December 30, 1959, at Los Angeles. Plunkett Water Company, a neighboring public utility water company, appeared to protest the application and complain on the grounds that the applicant was engaged in an unlawful operation in Parcel No. 8, and that Plunkett was ready, willing and able to serve the area of Parcel No. 8. After the precise locations of the various water systems' operations in the vicinity of Parcel No. 8 had been established on the record, and after noting that the Plunkett Water Company had been notified of the hearing on the matter and had made no application to serve said Parcel, the presiding officer rejected Plunkett's complaint and protest on the grounds that no legitimate basis for such complaint and protest was shown, but accepted Plunkett's appearance as an interested party. No other appearances were entered, except those of the Commission staff.

General Information

The applicant furnishes water service in incorporated areas in the Cities of Paramount and Bellflower in its Parcels Nos. 1 through 7, inclusive, under certificates of public convenience and necessity granted by Decisions Nos. 34063, 34694, 49980,

50589, and 53141, dating from April 1, 1941 to May 28, 1956. As of December 31, 1958, water service was being furnished to 1,534 flat rate and 42 meter rate customers, and 68 fire hydrants.

Parcel No. 8 Water System Facilities

The water system facilities in Parcel No. 8, which comprises 414 lots in the 9 tracts plus 15 extra services, were installed in 1958 and 1959 by C. L. Zastrow, deceased, and were turned over to the applicant on June 30, 1959 under a percent of revenue refund agreement providing for a refund of the cost of the distribution system and all facilities except wells, pumps, pressure tanks, pump houses, and fences. Said latter items are covered by a short-term note from the applicant to Mrs. Zastrow for \$17,898.29 which latter amount is a portion of the indebtedness proposed to be cancelled through the issuance of common stock by the applicant to Mrs. Zastrow, authority for which issuance is applied for herein. The balance of the total proposed common stock issue of \$34,395, amounting to \$16,497.47, is the cost of wells Nos. 10 and 16 and the cash advanced as shown in the instant Application No. 41355, as amended.

Parcel No. 9 Water System Facilities

The water system facilities in Parcel No. 9, which comprises 240 lots, were installed by E. C. Losch Company, a pipeline construction firm of Paramount, in 1953 and 1954 and until July 14, 1958 were operated by Howard Plowman, et al., Trustees. The water systems were acquired by Bellake Investment Company on July 14, 1958. C. L. Zastrow, then president of the applicant, was also president of Bellake. Bellake sold the water system in Tract No. 17518 in Parcel No. 9 to applicant on July 14, 1958, and sold the system in Tract No. 15316 in Parcel No. 9 to applicant on August 1, 1958. The record shows that no application to operate a public utility water system

in Parcel No. 9 was sought from the Commission or granted by it to Bellake but that, in fact, it was so operated. Original records showing the cost of the facilities installed by Losch were unobtainable for the record and an original cost appraisal was submitted by applicant in Exhibit No. 24. Said appraisal amounted to \$46,356.45 which was \$9,733.70 less than the recorded amounts on applicant's books of account for total utility plant excluding nonutility land of \$1,250 and the residence at wellsite No. 14 of \$7,300. The total amount of the contracts, approval of which is sought in the instant Application No. 41148, is \$64,640.15 which is the total amount recorded on applicant's books.

A Commission staff accounting witness recommended approval of the two-long term contracts, copies of which were attached to Application No. 41148, supra, as Exhibit B and were filed at the hearing as Exhibits Nos. 10 and 11, inasmuch as the original cost of the utility properties depreciated plus cost of nonutility properties acquired through the issuance of the contracts substantially exceeds the present worth of the contracts based upon an assumed 6 percent interest rate. Said witness further recommended that the plant acquisition debits of approximately \$13,000 arising from this transaction be amortized over a 10-year period of time as charges against income in lieu of interest. He computed that the annual charge on a 10-year basis would approximate \$1,300 compared with an initial annual interest cost of \$3,098 if the applicant were required to replace the contracts with a 6 percent interest bearing long-term indebtedness equal in amount to the adjusted book cost. This witness further recommended the approval of the issuance of the 34,395 shares of common stock at par value and pointed out that such

issuance would increase the common stock equity of the applicant from 13 percent to 24 percent.

Position of Plunkett Water Company

Donald R. Plunkett, an individual doing business as Plunkett Water Company, furnishes water service in the area shaded in brown crayon on the map, Exhibit No. 1, and to the Woodruff Jewish Community Center generally located at the northeast corner of what would be a westerly extension of Felson Street and Woodruff just north of the City of Long Beach city limits. This public utility water company, operating under the jurisdiction of the Commission, has not otherwise expanded its water system due to the alleged bankruptcy of its proprietor which said bankruptcy was found not to be a fact about one month prior to the hearing on the instant matter on December 30, 1959. The Plunkett service area is at least 300 feet west of the west boundary of tentative Tract No. 24871, and Somerset Mutual Water Company whose service area is outlined in yellow crayon on the map, Exhibit No. 1, furnishes water service to a church in the intervening area west of said Tract and the Plunkett service area. As noted heretofore, Plunkett testified that he was now ready, willing and able to serve Parcel No. 8 but, as of the date of the hearing on the instant matter, he had filed no application for a certificate to so serve, and he made no showing of public convenience and necessity, including requests of Plunkett for water service in Parcel No. 8, or water supply, financial, or management capabilities.

Public Needs for Water Service in Parcels Nos. 8 and 9
and Applicant's Capabilities to Meet Such Needs

The record shows that the properties encompassed by the proposed boundaries of Parcel No. 8 were subdivided by the R. A. Watt Company and subsidiary corporations and that the developers

advanced the funds for the water system to C. L. Zastrow or Sarah G. Zastrow. Refund agreements were entered into by the developers and C. L. Zastrow or Sarah G. Zastrow calling for refunds to the developers on the basis of 22 percent of revenues for a 20-year period. The agreements required \$73,344 in deposits by the developers based on \$180.80 for each regular service connection and an extra \$60 for each special service connection. Concomitant agreements, similar in form, were entered into between applicant and Sarah G. Zastrow. The effect of these various agreements was to provide \$15,445.54 in excess of the cost of distribution facilities, to apply on the cost of backup facilities. The record shows further, that the water system was installed by C. L. Zastrow and Sarah G. Zastrow in 1958 and 1959 but was not turned over to the applicant until June 30, 1959 upon completion of the subdivisions. Refund contracts in the amount of \$57,898.46 between applicant and Sarah G. Zastrow cover a portion of the facilities.

As to Parcel No. 9, the record shows that the water system installed in 1953 and 1954 was operated by Howard Plowman, et al., Trustees; was in distress; and was acquired by Bellake Investment Co. which made all necessary repairs, drilled a new well, and put the system on a satisfactory basis to its consumers and then sold it to the applicant pursuant to the contracts contained in Exhibit B, supra. The water service in said Parcel is being furnished on a flat rate schedule.

From a review of the record it appears that the sources of water supply developed, installed, or acquired by the applicant in Parcels Nos. 8 and 9, and the transmission and distribution facilities in said Parcels are adequate to meet the needs of applicant's present consumers in said Parcels and of consumers who may be added to the water systems therein.

A Commission staff engineering witness recommended that applicant be required to install meters on all services in Parcels Nos. 8 and 9 within a reasonable length of time and to install a suitable measuring device to determine production at each source of water supply in order to maintain a record of the quantity of water produced at each source. These recommendations appear to be reasonable and in the public interest and the order hereinafter will provide that they be carried out.

Findings and Conclusions

It is found as a fact and concluded that public convenience and necessity require that the application for a certificate of public convenience and necessity covering Parcels Nos. 8 and 9 be granted. No showing of public convenience and necessity having been made for any area outside the boundaries of Parcels Nos. 8 and 9, the order which follows will provide that the applicant shall not extend its water system outside said boundaries without further order of the Commission.

Applicant's request for approval of the two non-interest bearing contracts, attached to Application No. 41148 as Exhibit B, and the request for authority to issue stock contained in Application No. 41355, amended, appear to be reasonable and said requests will be granted by the order hereinafter.

The certificate of public convenience and necessity granted hereinafter shall 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.

O R D E R

Applications as above entitled, as amended, having been filed, public hearing having been held, the matters having been submitted and now being ready for decision,

IT IS HEREBY ORDERED as follows:

1. a. That Peerless Land & Water Co., Inc., a corporation, be and it is granted a certificate of public convenience and necessity to extend its water system and to construct and operate a public utility water system in the areas designated as Parcels Nos. 8 and 9 as outlined in the opinion herein.
- b. That applicant shall not extend its water system outside the boundaries of Parcels Nos. 8 and 9 without further order of the Commission.
2. a. That applicant be and it is authorized to apply its presently filed tariffs throughout the areas certificated by this order.
- b. That applicant is authorized and directed to file within thirty days after the effective date of this order and in conformity with General Order No. 96 the schedules of rates attached hereto as Appendix A and a tariff service area map acceptable to this Commission, to provide for the application of its tariff schedules to the areas certificated herein. Such tariff sheets shall become effective upon five days' notice to the public and this Commission after filing as hereinabove provided.
3. That applicant shall initiate a program of installing meters on all services in Parcels Nos. 8 and 9; shall complete such program prior to December 31, 1961; and shall report to the Commission in writing when such program has been completed within ten days thereafter.
4. That applicant shall within thirty days after the effective date of this order, install a suitable measuring device to determine production at each source of water supply in Parcels Nos. 8 and 9, and shall notify the Commission in writing within ten days after the installation and placing in operation thereof; that applicant shall maintain a record of the quantity of water produced at each source.

5. That applicant shall file, within thirty days after the effective date hereof, four copies of a comprehensive map drawn to an indicated scale not smaller than 300 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 properties of the applicant in Parcels Nos. 8 and 9.
6. a. 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 1st 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 the Commission.

b. That applicant shall make a new depreciation accrual study based on January 1, 1960 utility plant and depreciation reserve balances and shall, within 180 days after the effective date hereof, submit the results thereof to the Commission for review.
7. That if the authorization herein granted is exercised, applicant shall procure and dedicate to water utility purposes, the lots or areas on which the wells, pumps and tanks are or are to be located and easements or permits where the pipeline mains are or are to be located in lots, other than in public streets, and shall file, within thirty days after the effective date hereof, one copy of each appropriate document showing such procurement, dedication, easement or permit.
8. a. That applicant's request for approval of the contractual evidences of indebtedness, Exhibit 3 attached to Application No. 41148, be and it is granted and that said instruments be and they are approved.

b. That the charge to Account 100.5, Utility Plant Acquisition Adjustments, resulting from the execution of the contracts herein approved, estimated at \$13,000 by the staff accounting witness, be amortized in equal annual installments over a period of ten years by charges to Account 538, Miscellaneous Income Deductions.

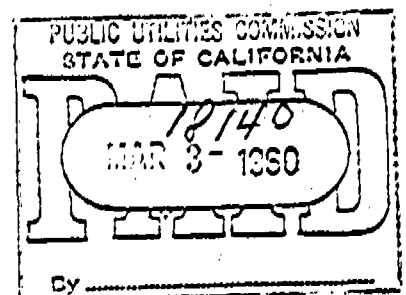
c. That applicant is authorized to issue 34,395 shares of its common stock of a par value of \$1.00 per share in the aggregate amount of \$34,395 in cancellation of indebtedness owing to Mrs. Sarah G. Zastrow.

- d. That the amount charged to Account 100.5 shall be disposed of as provided for in ordering paragraph 8.b. of this decision. The Commission is of the opinion that the money, property or labor to be procured or paid for under such contracts and by the issue of such stock is reasonably required by applicant for the purposes herein stated and that such purposes, except for the amount to be charged to Account 100.5, are not reasonably chargeable to operating expenses or to income.
9. That applicant shall file with the Commission a report or reports as required by the Commission's General Order No. 24A, which order, insofar as applicable, is made a part of this order.
10. That the authority to issue stock herein granted will lapse if not exercised within one year from the effective date hereof.
11. That the authority herein granted for approval of the contractual evidences of indebtedness will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$65. In all other respects the effective date of the order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 29th day of February, 1960.

[Signature] President
[Signature]
[Signature]
[Signature]
Theodore J. Jumper Commissioners

Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.



APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Certain groups of subdivided tracts, (designated by parcel numbers), situated in or near the Cities of Bellflower and Paramount, Los Angeles County.

RATES

Per Meter
Per Month

Quantity Rates:

First	500 cu.ft. or less	\$1.75
Next	1,000 cu.ft., per 100 cu.ft.25
Next	3,500 cu.ft., per 100 cu.ft.20
Next	5,000 cu.ft., per 100 cu.ft.15
Over	10,000 cu.ft., per 100 cu.ft.12

Minimum Charge:

For	5/8 x 3/4-inch meter	\$1.75
For	3/4-inch meter	2.50
For	1-inch meter	3.50
For	1 1/2-inch meter	5.00
For	2-inch meter	8.00

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

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Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on a flat rate basis.

TERRITORY

Certain groups of subdivided tracts (designated by parcel numbers), situated in or near the Cities of Bellflower and Paramount, Los Angeles County.

RATES

	<u>Per Service Connection Per Month</u>
For a single family residence, including premises	\$2.00
For each additional residence on the same premises and served from the same service connection	1.25
For each single business establishment	2.00

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than 3/4-inch in diameter.
2. All service not covered by the above classifications will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer for above classifications, 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 the County of Los Angeles.

TERRITORY

Certain groups of subdivided tracts (designated by parcel numbers), situated in or near the Cities of Bellflower and Paramount, Los Angeles County.

RATE:

Per Month

For each hydrant \$1.50

SPECIAL CONDITION

The above rate applies to 4-inch and 6-inch hydrants.