

**ORIGINAL**

Decision No. 60872

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 ORCUTT TOWN WATER COMPANY, a California )  
 corporation, for authority to extend )  
 its certificated area, to establish )  
 rates for water service in the extended )  
 territory so requested for certifica- )  
 tion, for authority to substitute )  
 sources of water supply, for authority )  
 to issue shares of its common stock, )  
 and for authority to execute a promis- )  
 sory note. )

Application No. 41815  
(As Amended)

In the Matter of the Application of )  
 ORCUTT TOWN WATER COMPANY, a California )  
 corporation, for authority to extend )  
 its certificated area to serve the town )  
 of Sisquoc and to acquire the existing )  
 water system serving the town of )  
 Sisquoc; to establish rates for water )  
 service in the extended territory so )  
 requested for certification; to issue )  
 its shares of common stock in payment )  
 therefor. )

Application No. 41969  
(As Amended)

Charles W. Drake for applicant.  
Alton L. Pabst, interested party.  
L. L. Thormond and W. B. Stradley for  
 the Commission staff.

O P I N I O N

By Application No. 41815, filed December 28, 1959, and amended March 24 and April 18, 1960, Orcutt Town Water Company seeks authority to extend its certificated area at Orcutt, Santa Barbara County, to establish water rates, to issue common stock, to issue a promissory note, and to terminate agreements between it and Union Oil Company.

By Application No. 41969, filed February 19 and amended April 18, 1960, Orcutt Town Water Company seeks authority to acquire from Union Oil Company an existing water system serving the town of Sisquoc, Santa Barbara County, and to establish rates for service.

The two matters were heard, on a consolidated record, before Examiner F. Everett Emerson on July 13, 1960, at Santa Maria.

Applicant, as a subsidiary corporation of Union Oil Company, certificated by this Commission September 3, 1940, was formed for the purpose of supplying public utility water service to the town of Orcutt. It presently serves about 430 customers. Prior to applicant's formation, the Union Oil Company had provided water service to the community for about 37 years. Mr. Morgan Flagg, President of Orcutt Town Water Company, presently holds all of applicant's stock.

Applicant has extended its plant into areas contiguous to the area originally certificated to it at Orcutt and contemplates further expansion into other contiguous areas to meet demands for domestic water service resulting primarily from housing and subdivision developments being or to be constructed to meet the population influx attendant upon the expansion of Vandenburg Air Force Base. Mission Highlands Subdivision is presently the largest such area adjacent to Orcutt and is designed for about 256 homes. It lies to the southeast of the original Orcutt water system. An adequately designed water system, including a well of sufficient capacity to supply the new plus the old system, has been constructed therein and has been connected to the original system. It is proposed that this source of supply become the primary source for the over-all system and that Union Oil Company, which heretofore has been applicant's supplier of water, withdraw its water source from the utility system except for an emergency stand-by usage by the utility. In view of the evidence in this respect, the Commission finds that such rearrangement and substitution of source of water supply is not adverse to the public interest.

As mentioned above, applicant presently holds a certificate of public convenience and necessity. It has extended its physical facilities and operations into areas contiguous to Orcutt. It may

lawfully further extend its plant into other contiguous areas in the normal course of business. Indeed, it is to be expected that such will be done. In this proceeding, however, applicant seeks, in effect, the exclusive right to serve presently unserved territory greater in total area than all of that now served, even including its recent expansion. As justification for such request, applicant presented solicited letters from four persons stating that they desired that their premises be included within the boundaries of applicant's service area "at such time as the boundaries of your company are enlarged". Applicant's witness was uncertain as to where such premises might be located, although their lands, when combined, total more than 255 acres. Such presentation does not warrant a finding by this Commission that public convenience and necessity require or will require that applicant herein be certificated for the territory requested. Applicant requires no further certification in order to extend into contiguous areas. If, in the future, public convenience and necessity require extensions into noncontiguous territory, applicant may make a showing to such effect in an appropriate proceeding. In view of the evidence, therefore, the request for additional certification for the Orcutt system will be denied.

Applicant seeks authority to establish water rates for the recently expanded portion of its Orcutt system at higher charges than are applicable on the older portion of the system and has, in fact, already billed new customers at the higher rates. Applicant should be aware that such higher charges, prior to their authorization by this Commission, are made unlawfully; they must be refunded. In this record there is no evidence of sufficient weight to warrant a finding other than that the same rates and charges for water service should be applied without discrimination to all of applicant's customers

wheresoever located on the Orcutt system. Applicant's rate request, as it pertains to the system at Orcutt, will be denied.

Union Oil Company has for many years supplied water service to the town of Sisquoc. As in Orcutt, the service predates the Public Utilities Act. Applicant desires to acquire this system (now serving about 60 customers), obtain a certificate therefor and establish the existing rates and charges as its own. Applicant intends to rehabilitate and improve the water system. By the order which follows, applicant will be required to submit to this Commission a specific program for the installation of necessary improvements. The evidence respecting this system and its proposed operation is convincing that the public interest will be better served thereby. Accordingly, the Commission finds that the requests of applicant, as they pertain to the Sisquoc system, shall be granted.

The record in this proceeding includes historical cost appraisals for each of the Orcutt and Sisquoc systems. The one for Orcutt was based upon an inventory of physical plant and substantially supported by Union Oil Company and Orcutt Town Water Company records. The one for Sisquoc consists primarily of a spreading of a lump-sum "cost" figure, supplied by Union Oil Company, to the several accounting classifications prescribed by this Commission. The evidence is convincing that these appraisals are reasonable except insofar as "overhead" charges included for the Orcutt system are concerned. The Commission finds that such appraisals (excluding the overhead charges) represent the best available indication of the historical cost of the properties and that applicant's books should be set up to properly reflect such appraisals. The order herein will so provide.

Applicant seeks authority to issue to Mr. Morgan Flagg, its President, 1,060 shares of common stock at a par value of \$25 per share, and a 20-year five percent promissory note in the amount of \$44,000 in repayment of (1) an existing demand note for \$7,500

transferred to Mr. Flagg by Union Oil Company and (2) plant additions in the amount of \$63,000 allegedly made by Mr. Flagg since July, 1959. Of this latter amount, records substantiate the expenditure of \$59,730.15 by Mr. Flagg. In view of the evidence, the Commission finds that applicant should be authorized to issue no more than 929 shares of its stock at the present time. Further, the Commission finds that the money, property or labor to be procured or paid for by the issue of the stock and the note herein authorized is reasonably required for the purposes specified and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. Applicant will be required to file a copy of said note with the Commission.

Applicant has been operating under what may be termed a management and service agreement with Union Oil Company since 1940. Applicant's president, as an individual, has an agreement, dated August 7, 1959, with Union Oil Company respecting transfer of the water properties, ownership of applicant's stock and other matters. Applicant desires Commission approval of the second and approval of termination of the first. The Commission has no objection to the termination or to the carrying out of their terms, as the parties to the agreements may determine. The Commission is of the opinion that such matters, while of general interest, are not germane to the issues in the present proceedings and therefore require no action of the Commission.

The certificate issued herein is subject to the 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.

Applicant's rules, maps and tariff sheets generally, should be brought up to date so as properly to reflect its expanded operations and the order herein will so provide.

O R D E R

Based upon the evidence and the findings contained in the foregoing opinion,

IT IS ORDERED as follows:

1. A certificate of public convenience and necessity is hereby granted to Orcutt Town Water Company to operate as a water corporation in the town of Sisquoc, Santa Barbara County, as said town limits are delineated on Exhibit A attached to Application No. 41969.
2. Applicant shall file in quadruplicate with this Commission, within thirty days after the effective date of this order and in conformity with the provisions of General Order No. 96, rate schedules revised in such manner as to show that they are applicable to applicant's Orcutt and Sisquoc systems. No increase in any rate or charge shall result from such filing. Concurrently, applicant shall similarly file tariff service area maps and rules governing customer relations, acceptable to the Commission, revised to reflect current practices. Said rate schedules and other tariff sheets shall become effective on five days' notice to the public and to this Commission after such filing.
3. Within sixty days after the effective date of this order, applicant shall file with this Commission, four copies of comprehensive maps of each of its water systems, drawn to indicated scales not smaller than 200 feet to the inch, delineating by appropriate markings the various tracts of land and territory served; the water production, storage, transmission and distribution facilities,

and the location of the various water system properties of applicant.

4. Applicant, on or after the effective date of this order and on or before December 31, 1961, may issue and sell not to exceed 929 shares of its common stock at not less than \$25 per share for the purposes stated in the foregoing opinion. Applicant shall file with this Commission a report or reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of the order herein.

5. Applicant, on or after the effective date of this order and on or before December 31, 1961, may issue the 20-year five percent note in the principal amount of \$44,000 as requested. Within ten days of issuance, applicant shall file with this Commission a certified copy of said note as executed.

6. Applicant shall make such entries on its books as will reflect the adjusted historical cost appraisal of \$55,653.37 and the corresponding depreciation reserve of \$19,902.23 as of June 30, 1959, for the Orcutt system, in accordance with Schedule A of Exhibit No. 3 in this proceeding. Applicant shall also make similar book entries to reflect the appraisal of the Sisquoc system as of December 31, 1959, as set forth in Exhibit F attached to Application No. 41969.

7. Beginning with the year 1960, applicant shall make accruals for depreciation by dividing the original cost of depreciable plant, less estimated net salvage less depreciation reserve, by the estimated remaining life of the plant. Applicant shall review said accruals by accounts as of January 1, 1961, and thereafter whenever major changes in plant composition occur and at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.

8. Applicant shall refund to its customers any monies collected in excess of those properly chargeable under the tariffs which it has on file with this Commission and, on or before December 31, 1960, shall notify this Commission as to the amounts so refunded and to whom paid.

9. Within ninety days after the effective date of this order applicant shall submit to this Commission, in writing, a program for the rehabilitation and improvement of the water system at Sisquoc, such program specifically to include those improvements, together with their estimated costs, which applicant's engineering witness testified to in this proceeding.

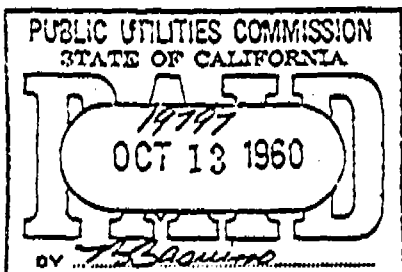
10. The certificate and authorizations hereinabove granted will expire if not exercised prior to January 1, 1962.

11. In all other respects these applications are hereby denied.

12 The effective date of this order shall be twenty days after the date hereof; except, that the effective date of authorization for the issuance of the note in paragraph 5, above, shall be the date on which applicant shall have paid the fee required by Section 1904(b) of the Public Utilities Code, said fee being \$44.00.

Dated at SAN FRANCISCO, California, this 11th day of OCTOBER, 1960.

[Signature] President  
[Signature]  
[Signature]  
Theodore Turner Commissioners



-8- Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.