

Decision No. 60943**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CREST WATER COMPANY,
 a California corporation, for approval
 of contract agreements containing pro-
 visions to add aid in construction of
 out-of-tract costs to in-tract reim-
 burseable improvement contracts, a
 deviation to Main Extension Rule 15-C,
 under Sec. 453 of the Public Utilities
 Code.

Application No. 41991

Roland Curran, Secretary, for applicant.
L. L. Thormod and James R. Barrett, for the
 Commission staff.

O P I N I O N

Crest Water Co. seeks authority to execute five contracts with subdividers for construction of in-tract and off-site water facilities in College Crest, an unincorporated area northeast of Bakersfield, a portion of which was certificated to applicant in 1956. (Decision No. 53233, Application No. 37744.) The application, filed February 29, 1960 and heard April 28, 1960 at Bakersfield before Examiner John M. Gregory, was submitted for decision subject to the filing of certain exhibits, since received, which contain the company's projection of estimates to 1965 including refund commitments, of the plant expansion required to complete installations in its present tariff area.

The evidence shows that applicant had a total of 259 active service connections on December 31, 1959, all but four of which were being supplied under flat rates. The service area adjoins portions of territory served by California Water Service Company, which, prior to inauguration of applicant's operation, had been requested

but had declined to extend its facilities to the College Crest development. The area, situated on rolling, elevated ground south of the Kern River Bluffs, presents problems concerned with obtaining supplies of water from wells, which are costly, and of constructing the storage and other facilities needed to serve the various tracts. Faced with these difficulties, the developers, one of which - Crest Land Company - is an affiliate of applicant, with some reluctance have joined with the utility in working out a "master plan" for securing additional water supply, storage and transmission plant under agreements whereby the prorated cost of off-site installations has been added to the on-site costs, to be refunded by the utility on the basis of the "percentage of revenue" method of its water main extension rule, over a period of 20 years. The requested authority thus contemplates a deviation from the provisions of that rule.

Applicant's officials, at the hearing, agreed that the utility would find it difficult to refund these advances in the absence of full development of the tracts, a conclusion made evident by the documentary evidence, which includes a staff financial study, based on information available prior to the hearing, which indicates that, in 1959, with only \$16,000 of advances for construction outstanding, the company showed a deficit in that approximate amount and a net operating loss of almost \$2,500 after taxes and depreciation.

While the exhibit filed after the hearing indicates that full refunds of construction advances might be achieved for the contracts involved in the present application, provided that the development became "saturated", refunds for advances planned for 1961-1963 would, with one exception, fall short of full retirement of the sums to be advanced for those years, due primarily to the fact that off-site costs are included in the advances.

Applicant advanced a substitute proposal, at the hearing, from that originally set forth in its pleading. In addition to the inclusion of the cost of off-tract facilities in the amount of the advance related to the two contracts with nonaffiliated developers, applicant now proposes to issue \$10 par value common stock to its affiliate, Crest Land Company, as a means of financing a portion of its investment and has asked the Commission for authority to do so. The resulting ratio of common equity to construction advances, of about 60% - 40%, would place the utility in better position to finance the remaining construction projects on the system, in the opinion of its secretary.

On May 17, 1960, applicant in its letter transmitting the post-hearing exhibits, stated that Crest Land Company had purchased the balance (2,048.5 shares) of stock authorized by a prior Commission decision (Decision No. 53233). Its later exhibit (Exhibit 3), covering estimated plant expansion to 1965, reflects that transaction, which leaves a refundable advance of \$77,425.66 by Crest Land Company for its 1960 project covering 195 lots, if the Commission were to approve the three agreements with Crest Land Company modified to refund \$20,485.00 of the prospective advance through issuance of common stock of Crest Water Co.

It is clear from this record that if the application, as originally presented, were to be granted and the projected plant expansion continued to 1965 on the basis of advances for construction, applicant's common stock equity would gradually decrease, in ratio to advances, to about 43% of its capital structure. This does not appear to be a sound structure, in view of the record which indicates operating losses.

The following tabulation, based on a reconciliation of the staff's exhibit and those filed by applicant after the hearing,

indicates the approximate capital structure that would result if the utility were to issue \$10 par value common stock to its affiliate for a portion of the balance of its outstanding construction advances. Such advances, for the purpose of this tabulation, assumed the approval by the Commission of the five agreements and the issue of the 2,048.5 shares of stock mentioned above for the immediate refund of a portion of the amount to be advanced by Crest Land Company. This results in a remaining theoretical unrefunded advance from Crest Land Company amounting to \$77,425.66 for 1960, and would bring about a ratio of common equity to advances roughly on the order of 60% and 40%.

<u>Item</u>	<u>Amount</u>	<u>Percent</u>
Common Stock	\$235,000	
Earned Surplus	\$(16,404) \$218,596	
3,000 Shares \$10 par value common stock	<u>\$ 30,000</u>	
Common Equity	\$248,596	60%
Advances (1960) \$135,548		
Less 3,000 shares <u>\$ 30,000</u>	\$155,548	} 40%
Note payable (to be paid in 1962) <u>\$ 10,000</u>	\$ 10,000	
Total Capitalization	\$414,144	100%

(Red Figure)

We find that the evidence does not support applicant's original request. Also, the substitute proposal of applicant appears to be unacceptable because the proposed main extension agreements with the three developers of the area to be served would provide for the inclusion of the cost of backup plant in the amount advanced to the utility. The utility's filed rule places such responsibility

upon the utility to provide this backup plant, and the additional amount here advanced for such backup facilities might never be refunded in full. At best, the portion of the advance related to the backup plant would not be refunded until the 20-year term of the agreements would have almost expired.

Authorization to execute the five contracts will be withheld. Instead, and in accordance with applicant's modified request, authority will be granted to issue not to exceed 3,000 shares of the utility's common stock of the par value of \$10 per share, to finance a portion of the company's investment in backup facilities for the developments projected for 1960. If applicant comes forward with a proposal to finance independently all or a major portion of the off-tract facilities and to use its main extension rule only for the distribution facilities required, the Commission will give consideration to such proposal in light of the circumstances then made to appear.

O R D E R

Public hearing having been held herein, the application having been submitted for decision on the record, as amplified by exhibits filed May 19, 1960 in accordance with an order made at the hearing, the Commission now being fully advised and basing its order upon the findings and conclusions contained in the foregoing opinion,

IT IS ORDERED that:

1. Applicant, after the effective date hereof and on or before December 31, 1960, may issue and sell not to exceed 3,000 shares of its common capital stock, of the par value of \$10 per share, for the purposes hereinabove specified, the Commission being


of the opinion that the money, property or labor to be procured or paid for by the issue of the securities herein authorized 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. Applicant shall file with the Commission monthly reports as required by General Order No. 24-A, which order insofar as applicable, is made a part of this order.


3. Except as granted herein, the application, in other respects, is denied.

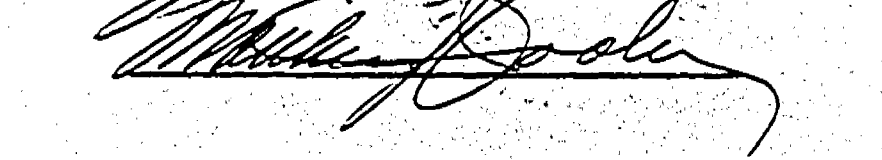
The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 25th day of OCTOBER, 1960.



President





Commissioners

~~C. Lynn Fox~~
Commissioner Theodore H. Jenner being necessarily absent, did not participate in the disposition of this proceeding.