

Decision No. 60960

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of ROYAL WATER COMPANY)
 to construct and operate a water)
 system, authority to issue stock)
 and for the establishment of rates)
 to consumers in the area of Simi,)
 Ventura County, State of California.)

Application No. 41950

H. Douglas Gamble, for applicant.
Gibson, Dunn & Crutchen, by Raymond L. Curran,
 for Rosa Water Company, interested party.
A. L. Gielegem and D. B. Steger, for the
 Commission staff.

O P I N I O N

By the application herein, filed on February 11, 1960, Royal Water Company, a corporation, seeks authority to construct and operate a domestic water system in Ventura County, California, to issue stock, establish rates, and to exercise a franchise.

A public hearing on the application was held before Examiner Kent C. Rogers at Simi, California, on June 15, 1960, at the conclusion of which the matter was submitted subject to the receipt of certain exhibits. These exhibits were received on September 6, 1960, and the matter is ready for decision.

Background

Applicant is a California corporation formed on November 12, 1959, primarily to sell water for domestic and commercial purposes. Its Articles of Incorporation were filed with the Secretary of State on November 18, 1959. It is thereby authorized to issue 7,500 shares of stock having a par value of \$100 per share including 5,000 shares of preferred stock entitled to earn 5 per cent per annum, cumulative. The remainder are common shares which have no stated rate of income,

but have exclusive voting rights and powers except that if at any time eight or more quarterly dividends (whether consecutive or not) on the preferred shares shall be in default in whole or in part, the holders of the preferred shares shall be entitled to elect the smallest number of directors which shall constitute a majority of the authorized number of directors.

The present officers of the corporation are:

| | |
|-------------------|----------------|
| Ralph Brown | President |
| Jack Rosenberg | Vice President |
| H. Douglas Gamble | Secretary |

The offices of the corporation are at 9581 Pico Boulevard, Los Angeles, California.

Jack Rosenberg, the vice president of applicant, is also a member of the unincorporated development group, Max Rosenberg & Sons. At the outset, stock is to be issued to Max Rosenberg & Sons and to the president of the applicant company in exchange for cash as hereinafter set forth.

Service Area

The proposed service area contains approximately 69 acres of land in Ventura County (Exhibit No. 1) in which are to be constructed 200 single family residences. Applicant proposes to immediately develop Tract No. 1188 containing 155 residences (Exhibit J-1 on the application) and thereafter to develop Tract No. 1187 which will contain 45 lots. At the time of the hearing herein 53 homes were under construction with an additional 58 to be commenced in two weeks.

The Water Supply and System

Applicant proposes to acquire three wells, designated Wells Nos. 1, 3 and 4 (Exhibit No. 1 shows well sites). In addition, applicant's president testified that applicant has the first rights to water from another well, designated Well No. 2, located approximately one half mile north of the requested service area. Well No. 1

(Proud Well No. 1) was tested to produce 80 gallons per minute and, with equipment thereon, produces 50 gallons per minute. Well No. 2 (Proud Well No. 2) was tested to produce 360 gallons per minute. This latter well has an excess of minerals, however, and must be blended (Exhibit No. 3) with water from Well No. 1 in the ratio of one gallon of water from Well No. 2 to .29 gallons from Well No. 1. This reduces the present availability of water from the two wells to 222 gallons of water per minute, assuming that applicant can receive 172 gallons per minute from Well No. 2. Well No. 2 is owned by Ethel Proud. This well now supplies surplus water to the Simi Valley Unified School District, to Simi Mutual Water Company, and to Irving V. Bram et al., under terms of agreements (Exhibit No. 6). There is a 100,000-gallon storage tank adjacent to Well No. 2. Applicant proposes to install a 210,000-gallon storage tank at Well No. 1. While this total storage at Well No. 2 could be used in an emergency, due to the fact that water from this well must be blended at a ratio of one part of Well No. 1 water with approximately three parts of Well No. 2 water, for all practical purposes the Well No. 2 storage is not available.

In addition applicant will be able to secure water from additional wells or well sites known as Nos. 3, 4, 5 and 7 (Exhibit No. 1), which it plans to acquire from the subdivider, Max Rosenberg & Sons. Wells Nos. 3 and 4 are drilled and cased but have no pumps and there are no water quality or well tests available. No wells have been drilled in well sites Nos. 5 and 7. It is expected that site No. 7 will be highly productive but will produce water of a quality similar to that produced by Well No. 2.

The staff hydraulic engineer was of the opinion that the proposed storage and present water productions are adequate to meet the full development of 200 services. This engineer also pointed

out that the ground water level in the area had been dropping since 1946 (page 3, Exhibit No. 4). The record shows that the proposed service area is in the Calleguas area proposed to be included in area of the Metropolitan Water District, but there are no immediate plans for bringing such water into the vicinity of applicant's service area.

Applicant has a temporary water supply permit (Exhibit No. 3) expiring on September 1, 1961, permitting it to use the water from Wells Nos. 1 and 2, subject to chlorination and the blending of the water so that .29 gallons of Well No. 1 water is blended with one gallon from Well No. 2.

Applicant will have a management company service the system, maintain it and collect bills. This will give water users 24-hour service by local parties.

Rates

Applicant proposes metered domestic service rates only. The proposed meter and fire hydrant rates are as follows and are found to be reasonable:

RATES

| | | <u>Per Meter</u> <u>Per Month</u> |
|-----------------|-----------------------------------|--------------------------------------|
| Quantity Rates: | | |
| First | 500 cu.ft. or less | \$ 4.00 |
| Next | 1,500 cu.ft., per 100 cu.ft. | .25 |
| Next | 3,000 cu.ft., per 100 cu.ft. | .20 |
| Over | 5,000 cu.ft., per 100 cu.ft. | .15 |
| Minimum Charge: | | |
| For | 5/8 x 3/4-inch meter | \$ 4.00 |
| For | 3/4-inch meter | 4.50 |
| For | 1-inch meter | 6.00 |
| For | 1 1/2-inch meter | 8.00 |
| For | 1 3/4-inch meter | 12.00 |
| For | 2-inch meter | 25.00 |
| For | 3-inch meter | 50.00 |
| For | 4-inch meter | 80.00 |

| Fire Hydrants: | <u>Per Hydrant Per Month</u> |
|---|----------------------------------|
| From a 4-inch main, risers 3-inch diameter or less | \$1.50 |
| From a 6-inch main, or larger main risers 3-inch diameter or less | 1.50 |
| 4 x 2½-inch single outlet from 4-inch main ... | 1.50 |
| 4 x 2½-inch single outlet from 6-inch main ... | 2.00 |
| 4 x 2½-inch single outlet from 8-inch main, or larger | 2.50 |
| 4 x 2½-inch double outlet from 4-inch main ... | 2.50 |
| 4 x 2½-inch double outlet from 6-inch main ... | 3.00 |
| 4 x 2½-inch double outlet from 8-inch main, or larger | 4.00 |
| 6 x 2½-inch double outlet from 6-inch main, or larger | 5.00 |

Franchise

The County of Ventura has granted applicant a franchise (Franchise Ordinance No. 884) authorizing it to use all streets, roads, and highways in the service area for its water mains and service lines. This ordinance was effective on May 19, 1960, and continues for 50 years (Exhibit No. 2).

Financing

In order to obtain funds with which to construct and acquire the initial system in Tract No. 1188, to finance the expenses of incorporation, and to provide working cash, applicant proposes to issue 235 shares of common stock and 259½ shares of preferred stock for cash to Max Rosenberg & Sons and Ralph Brown for the sum of \$49,450, and Max Rosenberg & Sons will advance the costs of the mains and services in Tract No. 1188 totaling \$16,500, subject to a main extension refund agreement.

Inasmuch as these costs represent the costs of the original system and formation of the company, the method of financing is

permissible except as to the issuance of preferred stock. The applicant estimates that after full development of this system (200 service connections) the revenue will only meet the out-of-pocket costs plus depreciation. It appears, and we find, that the issuance of cumulative preferred stock at this time would be contrary to the public interest in the light of such financial results. We will authorize the issuance of 494½ shares of common stock.

The Staff Report

The staff checked the application, investigated the matter, and made several recommendations. The recommendations are reasonable and will be embodied in the order herein.

Findings and Conclusions

The Commission has considered the above-entitled application and all evidence presented at the hearing thereon. Based on said evidence the Commission is of the opinion and finds that public convenience and necessity require that applicant be granted a certificate of public convenience and necessity to acquire, construct and operate a public utility water system in that portion of Ventura County, California, known as Tracts Nos. 1187 and 1138, subject to the conditions and restrictions set forth in the order herein, and it will be so ordered.

It further appears and we find that public convenience and necessity require that applicant exercise the rights, privileges and franchise granted to applicant by the County of Ventura by Franchise Ordinance No. 884.

The certificate of public convenience and necessity herein granted is subject to the following provisions of law:

1. That the Commission shall have no power to authorize the capitalization of the franchise involved herein or this certificate of public convenience and necessity or the right to own, operate, or enjoy such franchise or certificate of public convenience and necessity in excess of the amount

(exclusive of any tax or annual charge) actually paid to the State or to a political subdivision thereof as the consideration for the issuance of such franchise or certificate of public convenience and necessity or right.

2. That the franchise involved herein shall never be given any value before any court or other public authority in any proceeding of any character in excess of the cost to the grantee of the necessary publication and any other costs paid by it to the county therefor at the time of the acquisition thereof.

It further appears and we find that applicant shall be permitted to file the schedule of rates as set out in Appendix A of the order herein.

We further find that the money, property, or labor to be procured or paid for by the issuance 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.

In issuing our order herein we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total value of the shares, nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the approval herein is not to be construed as a finding of value of applicant's stock or properties nor as indicative of amounts to be included in a future rate base for the determination of just and reasonable rates.

The request to issue stock and enter into a main extension agreement will be granted as set forth in the order herein.

O R D E R

An application having been filed, a public hearing having been held thereon, the matter having been submitted and now being

ready for decision and the Commission having made the foregoing findings, and based on said findings; therefore,

IT IS ORDERED that Royal Water Company, a corporation, be and it is granted a certificate of public convenience and necessity to construct and operate a public utility water system in the unincorporated portion of Ventura County, State of California, in the area designated as Tracts Nos. 1187 and 1188.

IT IS FURTHER ORDERED as follows:

1. That the applicant be and it is authorized to file, in quadruplicate with this Commission after the effective date of this order, the rates set forth in Appendix A attached to this order, to be effective on or before the date service is first rendered to the public under the authority herein granted, together with rules, sample copies of forms used in connection with customers' services and a tariff service area map acceptable to this Commission and in accordance with the requirements of General Order No. 96. Such rates, rules and tariff service area map shall become effective upon five days' notice to this Commission and to the public after filing as hereinabove provided.

2. Applicant shall notify this Commission in writing of the date service is first rendered to the public under the rates and rules authorized herein within ten days thereafter.

3. Applicant shall file with this Commission, within thirty days after the system is placed in operation under the rates and rules authorized herein, four copies of a comprehensive map, drawn to an indicated scale not smaller than 400 feet to the inch, delineating by appropriate markings the tract of land and territory served; the principal water production, storage and distribution facilities; and the location of the various water system properties of applicant.

4. 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 this Commission.

5. That applicant, after the effective date hereof, may issue not to exceed $494\frac{1}{2}$ shares of its common stock to Max Rosenberg & Sons and Ralph Brown, or either of them, for the purposes specified in the application herein and as itemized therein. The authority to issue $259\frac{1}{2}$ shares of preferred stock is hereby denied.

6. That applicant, after the effective date hereof, may enter into a main extension agreement with Max Rosenberg & Sons providing for the cost of the distribution mains and services in Tract No. 1188 in a total sum of approximately \$16,500, to be advanced by the said Max Rosenberg & Sons. Said agreement shall conform to the provisions of the main extension rule as set forth in the Commission's Decision No. 50580 in Case No. 5501 and otherwise be acceptable to the Commission. Two conformed copies of such agreement shall be filed with this Commission prior to the date service is first rendered to the public under the rates and rules authorized herein.

7. That applicant shall file with the Commission monthly reports as required by General Order No. 24-A which order, in so far as applicable, is hereby made a part of this order.

8. That a certificate of public convenience and necessity be and it hereby is granted to Royal Water Company, a corporation,

to exercise the rights, privileges and franchise granted it by Franchise Ordinance No. 884 of the County of Ventura, which ordinance was adopted on April 19, 1960, by the Board of Supervisors of Ventura County.

9. That on or before September 1, 1961, applicant shall develop an additional new source of water supply sufficient, when blended with applicant's other sources of water to provide all consumers with water of the quality meeting the permanent standards of the State Department of Public Health. Applicant shall file progress reports on such installation with this Commission on or before March 1, 1961, June 1, 1961 and September 1, 1961.

10. That within sixty days after the effective date of this order applicant shall install at each source of supply a suitable measuring device in order that monthly and annual records of the quantity and quality of the water may be obtained and shall notify this Commission in writing of such installations within ten days thereafter.

11. That applicant shall not extend service outside of the boundaries of Tracts Nos. 1187 and 1188 without further order of this Commission.

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.

[Handwritten signature]

President
[Handwritten signature]

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

Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Tracts Nos. 1187 and 1188, located near Simi, Ventura County.

RATES

Per Meter
Per Month

Quantity Rates:

| | |
|--|---------|
| First 500 cu.ft. or less | \$ 4.00 |
| Next 1,500 cu.ft., per 100 cu.ft. | .25 |
| Next 3,000 cu.ft., per 100 cu.ft. | .20 |
| Over 5,000 cu.ft., per 100 cu.ft. | .15 |

Minimum Charge:

| | |
|--------------------------------|---------|
| For 5/8 x 3/4-inch meter | \$ 4.00 |
| For 3/4-inch meter | 4.50 |
| For 1-inch meter | 6.00 |
| For 1 1/4-inch meter | 8.00 |
| For 1 1/2-inch meter | 12.00 |
| For 2-inch meter | 25.00 |
| For 3-inch meter | 50.00 |
| For 4-inch meter | 80.00 |

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

APPENDIX A
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Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to duly organized fire districts or other political subdivisions of the State.

TERRITORY

The unincorporated area known as Tracts Nos. 1187 and 1188, located near Simi, Ventura County.

RATES

| | <u>Per Hydrant Per Month</u> |
|---|----------------------------------|
| For 3-inch or smaller diameter riser, from 4-inch or larger main | \$1.50 |
| For 4 x 2½-inch single outlet: | |
| From 4-inch main | 1.50 |
| From 6-inch main | 2.00 |
| From 8-inch or larger main | 2.50 |
| For 4 x 2½-inch double outlet: | |
| From 4-inch main | 2.50 |
| From 6-inch main | 3.00 |
| From 8-inch or larger main | 4.00 |
| For 6 x 2½-inch double outlet, from 6-inch or larger main | 5.00 |

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.
2. The cost of installation and maintenance of hydrants will be borne by the utility.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.
4. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.