

ORIGINAL

Decision No. 61174

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 ANTELOPE VALLEY WATER CO., for a Cer-)
 tificate of Public Convenience and)
 Necessity authorizing Applicant to)
 furnish Water service in the vicinity)
 of Leona Valley, Los Angeles County,)
 California; to acquire rights and)
 facilities with respect thereto; for)
 Permission to sell and issue its com-)
 mon stock in the amount of \$31,700.73;)
 to issue a long-term note in the)
 amount of \$5,000.00; and to exercise)
 Franchise already granted.)

Application No. 42245
(As Amended)

William N. Taylor, for applicant.
Phillip S. Eisendrath, for Ritter Park Corp.,
 and Barbara Properties, Inc., interested parties.
D. B. Steger for the Commission staff.

O P I N I O N

By this application, filed May 11, 1960, as amended October 18, 1960, Antelope Valley Water Co., a California corporation, seeks a certificate of public convenience and necessity in order to furnish water service within a portion of Tract No. 5148 in Leona Valley, Los Angeles County, and an order authorizing it to issue stock and a long-term note and to exercise a franchise granted to it by the County of Los Angeles.

Public hearing in the matter was held before Examiner F. Everett Emerson on October 18, 1960, at Los Angeles. Oral amendment to the application, respecting the amounts of the proposed stock issue and note, was made at the hearing. The matter is submitted and ready for decision.

The area for which a certificate is sought in this proceeding encompasses approximately 680 acres in Leona Valley, which has been receiving water service through Leona Valley Mutual Water Company since 1922. The water system and the service rendered therefrom has been limited and generally inadequate. The Mutual desires to be relieved of its responsibilities and since April, 1959, has had Mr. William N. Taylor, president of applicant, operating the system for it. Further, the Mutual has entered into an agreement with applicant whereby its entire water system would be transferred to applicant upon approval by this Commission, of the contemplated new serving arrangements. Mr. Taylor has made numerous improvements to the water system and by so doing has brought the system to the condition where it meets the requirements of this Commission's General Order No. 103. In addition, under Mr. Taylor's operation, improved service has brought a financially losing system to one which now makes a small profit.

The properties to be acquired by applicant may be separated into three groups; viz.: (1) assets acquired by Mr. Taylor in assumption of a note to A. W. Johnson, a member of the Mutual who had made substantial investments in the plant of the Mutual system, (2) physical items of plant, such as wells, pumping plant, land, and mains, owned by the Mutual, together with appurtenant rights and (3) improvements and additions made by Mr. Taylor.

As of the date of hearing, the note to Johnson had been reduced from an original amount of \$5,000 to \$3,935 and it is this latter amount for which applicant seeks authority to incur long-term indebtedness. The note is payable at \$50 monthly, without interest.

The properties of the Mutual, having a reported depreciated original cost of approximately \$13,881 as of December 31, 1959, are to be transferred to applicant by appropriate deeds and bill of sale in

exchange for applicant's taking over the system and the Mutual thereby being relieved of its water service obligations.

The improvements and additions to the system made by Mr. Taylor total approximately \$46,254. Applicant seeks to issue stock in exchange for such properties. Applicant's authorized capital stock consists of 2,500 shares of no par value common stock, of which 500 shares were outstanding, as of December 31, 1959, at a book value of \$473.26 per share. As of the same date, applicant's net utility plant, per books, approximated \$302,585 and its total assets were \$304,665.

The rates proposed by applicant will reduce the average monthly charge for water service by 39 percent when compared with the rates charged by the Mutual. All water usage is metered. Applicant has applied to the State's Department of Public Health for a water supply permit covering the Leona Valley system.

Since the major part of all new construction for applicant and for the Mutual has been performed by William N. Taylor, Inc., an associated company, the Commission staff undertook to test the reasonableness of the charges to each company. Such testing included examination of material invoices, unit installation charges, other charges, billing procedures and a comparison with costs of installing water systems in other areas by other pipeline contractors. Based upon these studies, the staff concluded that the work had been performed at prices lower than normally would have been required and that neither a profit was added for work on associated companies nor was any indirect cost capitalized. From the evidence in this respect, the Commission finds and concludes that such costs and charges for the Leona Valley system have been reasonable and are properly includable in applicant's rate base.

In addition to the system for which a certificate is herein sought, applicant presently operates ten other water systems in Kern

and Los Angeles Counties. Applicant has heretofore been granted a franchise by the County of Los Angeles.¹ Applicant seeks to exercise said franchise for the Leona Valley system.

Since the records of the Mutual are deficient, a study of the depreciation reserve requirement and remaining lives of depreciable utility plant is needed. By the order herein, applicant will be directed to make such a study, with the view in mind of adjusting its books to reflect an appropriate reserve for the Leona Valley system.

In view of the evidence, the Commission makes the following findings and conclusions:

1. The Commission finds as a fact that public convenience and necessity require and will require that applicant provide water service in Leona Valley and that applicant exercise the rights and privileges granted by the franchise issued to it by the County of Los Angeles as applicable to such area.

The certificates sought for such purposes will be granted. They are subject to the following provision of law:

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 a political subdivision thereof as the consideration for the grant of such franchise or certificate of public convenience and necessity or right.

2. Applicant should be authorized to issue and sell not to exceed 67 shares of its no-par value capital stock in a total amount not to exceed \$46,254. The Commission finds as a fact that the money, property or labor to be procured or paid for by such issuance of stock is reasonably required for the purpose of acquiring the improved

¹ A copy thereof is filed in Application No. 38284.

properties in the Leona Valley system and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

3. The Commission concludes that applicant should be authorized to incur long-term indebtedness in the amount of \$3,935 and to issue a note therefor, payable at \$50 monthly without interest.

O R D E R

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

IT IS ORDERED as follows:

1. That certificates of public convenience and necessity are hereby granted Antelope Valley Water Co., to operate as a water corporation and to exercise the rights and privileges granted to it by the County of Los Angeles, within the "service area boundary" delineated on Exhibit A attached to the application herein.

2. That applicant is authorized and directed to file in quadruplicate with this Commission, in accordance with the provision of General Order No. 96, tariff schedules for the Lancaster Tariff Area revised to include the Leona Valley system hereinabove certificated and, after not less than five days' notice to the public and to the Commission, to make said tariffs effective for water service rendered on and after the date on which the Leona Valley Mutual Water Company system is transferred to applicant.

3. That applicant shall notify this Commission, in writing within ten days thereafter, of the date on which transfer of the properties is completed and the date on which the Leona Valley system comes under the operational control of applicant.

4. That applicant shall undertake a depreciation reserve requirement study for the Leona Valley system properties, by accounts, as of January 1, 1961, and, after approval by this Commission of its proposed book entries to reflect the results of such study, shall conform its depreciation reserve thereto. Thereafter, applicant shall make accruals to the depreciation reserve by dividing the original cost of depreciable plant, less estimated net salvage, less depreciation reserve, by the estimated remaining life of the plant. Said accruals shall be reviewed by applicant whenever major changes in plant composition occur and at intervals of not more than five years and the results of such reviews shall be submitted to this Commission.

5. That applicant, on or after the effective date of this order and on or before December 31, 1961, may issue and sell not to exceed 67 shares of its no-par value stock in a total amount of \$46,254 for the purpose set forth in the foregoing opinion. Applicant shall file with this Commission a report or reports as required by General Order No. 24-A, which order, in so far as applicable, is made a part of this order.

6. That applicant, on or after the effective date of this order and on or before December 31, 1961, may issue its mortgage note in the principal amount of not to exceed \$3,935.07, payable at \$50 monthly without interest to A. W. Johnson. A copy of said note, as executed, shall be filed with this Commission within ten days of its issuance.

7. That the certificates hereinabove granted will expire if not exercised prior to January 1, 1962.

8. That the authorizations herein granted will become effective twenty days after the date hereof provided Antelope Valley

Water Co. has paid the fee prescribed by Section 1904 (b) of the Public Utilities Code, which fee is \$25.

Dated at San Francisco, California, this 13th day of DECEMBER, 1960.

Gerald W. Page
President
W. H. Mitchell
W. H. Smith
E. H. Fox
Theodore Jensen
Commissioners

