

unincorporated territory in Santa Cruz County. Applicant also asks the Commission to authorize the rates as proposed for general metered service and for service to public fire hydrants.

Proposed Rates

In the second amendment to the application, the following rates are proposed for the water service to be rendered:

| <u>General Metered Service</u> | | <u>Per Meter Per Month</u> |
|---|---------------------------------------|--------------------------------|
| Quantity Rates: | | |
| First | 500 cubic feet or less | \$ 3.00 |
| Next | 1,000 cubic feet, per 100 cu.ft. | .45 |
| Next | 2,500 cubic feet, per 100 cu.ft. | .25 |
| Over | 4,000 cubic feet, per 100 cu.ft. | .20 |
| Minimum Charge: | | |
| For | 5/8 x 3/4-inch meter | 3.00 |
| For | 3/4-inch meter | 3.75 |
| For | 1-inch meter | 6.50 |
| For | 1 1/2-inch meter | 10.00 |
| For | 2-inch meter | 15.00 |
| <u>Public Fire Hydrant Service</u> | | <u>Per Month</u> |
| For each standard type fire hydrant | | \$3.00 |

Service Area

Applicant owns a one-sixth interest in Santa Cruz Gardens, a corporation, which is developing and subdividing some 200 acres of land lying about one-half mile east of the city limits of Santa Cruz, which lands are located north of Soquel Avenue at the end of Thurber Lane and are bounded on the east by Rodeo Gulch, as shown on the map attached to the application as Exhibit A.

Although applicant proposes to eventually provide water service for all of the area known as Santa Cruz Gardens, at the present time he asks that the requested certificate be limited to

the central portion thereof, designated as Tract 230 consisting of about 26½ acres and containing 108 lots as shown in detail on the map attached to the application as Exhibit B.

The application states that there is no public water utility or other water service which can be extended reasonably into the proposed service area and that the City of Santa Cruz Water Department does not have available water sufficient to expand its services into this area outside of the city limits. No one has protested the granting of the application.

At the time of the hearing three or four model homes and a community swimming pool had been completed in the said tract. Several more residences were in various stages of construction by Hal Porter Homes, a corporation. It is planned to continue such construction progressively as fast as sales of the homes may warrant.

Description of Water System

The water supply for this system is to be obtained initially from two wells located in a depression immediately northeast of Tract 230 on land owned by applicant as shown on the map filed as Exhibit No. 10. A test of the "new" 10-inch, 250-foot well drilled in July, 1960 (Exhibits No. 5 and No. 7) showed a production of 38 gallons per minute at a pumping level of 187 feet, with the water level initially standing at 99 feet and returning to a level of 130 feet at completion of the test. This well is equipped with a 5-horsepower electrically operated pumping unit which delivers the water into a 60,000-gallon storage tank at ground level. As a

secondary source of supply, applicant has connected to the same storage tank a discharge line from the existing electrically operated pumping unit in the "old" drilled well located about 30 feet distant from the other well. This old well is reported to be 170 feet deep and the water standing at 115 feet, with an estimated production capacity of about 30 g.p.m. (Exhibit No. 6), although no adequate test has been made. Laboratory tests of samples from both wells (Exhibits No. 1 and No. 2) indicate that the water therein is not polluted.

From the storage tank the water is delivered into the distribution system through a 1,600-gallon hydropneumatic tank by means of two electrically operated booster pumps. At the present time, these are single-phase, 5-horsepower units rated at 50 g.p.m. capacity each. The subdividers are arranging with the electrical supply company to make 3-phase power available very soon, at which time applicant plans to replace the existing boosters with 3-phase, 10-horsepower units, each capable of pumping 100 g.p.m. into the distribution mains against the system pressure which will be maintained between 30 and 50 pounds per square inch.

The distribution system already installed in the tract (Exhibits No. 10 and No. 11) consists of approximately 4,600 feet of 6-inch and 600 feet of 4-inch diameter Class 150 asbestos-cement

pipe laid primarily in the streets of the tract. Service connections of 3/4-inch diameter copper pipe have been installed to each of the lots. Meters are to be installed on all services. There are six fire hydrants connected to the 6-inch mains.

The entire water system was designed by a registered civil engineer and the distribution system has been installed in accordance with standard specifications of The Water Department of the City of Santa Cruz (Exhibit No. 9), which require minimum cover of 30 inches over the top of the pipe.

Upon the completion of test borings and about June 1, 1961, applicant plans to install a larger and deeper well at some distance north of Tract 230 on land now belonging to Santa Cruz Gardens, which is estimated to produce about 200 g.p.m. of water.

Cost of Facilities

Applicant's late-filed Exhibit No. 13 shows in some detail the total investment of \$46,788.52 in the water utility plant as of February 8, 1961, and the proposed allocations to the several accounting classifications. Other details of certain portions of the plant are shown in applicant's Exhibits No. 11 and No. 12. The record shows that applicant plans to install meters on all services at an estimated cost of \$5,400 and that the latest estimated costs of the large new well and its pumping equipment are \$7,600 and \$3,900, respectively. The following tabulation summarizes, by classification of accounts, the actual cost to date of the existing plant and the estimated cost of future plant, totalling \$63,688.52.

COST OF UTILITY PLANT

From Applicant's Exhibits Nos. 11, 12 and 13.

| <u>Acct.</u> | <u>Classification</u> | <u>Amount</u> |
|---------------------------------------|-----------------------------|--------------------|
| <u>Actual Cost of Existing Plant</u> | | |
| 301 | Intangible Plant | |
| | Organization Expense | \$ 1,074.74 |
| 306 | Landed Capital | |
| | Site for Water Supply | 600.00 |
| 311 | Structures | |
| | Fence at Water Supply | 450.00 |
| 315 | Wells | |
| | Old Well | \$ 175.00 |
| | Laboratory Test | 7.00 |
| | | <u>\$ 182.00</u> |
| | New Well - Drilling | \$1,900.00 |
| | Develop and Test | 431.55 |
| | Concrete Slab | 212.50 |
| | Laboratory Test | 7.00 |
| | | <u>2,551.05</u> |
| 324 | Pumping Equipment | |
| | Pump at Old Well | 225.00 |
| | Pump at New Well | 1,909.81 |
| | Two Booster Pumps | 2,667.78 |
| | Air Compressor | 683.88 |
| | Controls and Test | 68.00 |
| | | <u>5,329.47</u> |
| 342 | Reservoirs and Tanks | |
| | 60,000-gal. Storage Res. | 3,224.00 |
| | Installation Cost | 179.58 |
| | 1,500-gal. Pressure Tank | 685.00 |
| | Concrete Slab | 574.18 |
| | | <u>4,662.76</u> |
| 343 | Transmission & Distr. Mains | |
| | 6" & 4" Pipe and Fittings | 24,570.70 |
| | Traffic Valve Boxes | 275.80 |
| | | <u>24,846.50</u> |
| 345 | Services | |
| | Copper Pipe | 4,284.00 |
| | Curb & Corp. Stops | 1,023.00 |
| | | <u>5,307.00</u> |
| 348 | Hydrants | |
| | | <u>1,560.00</u> |
| | Total Existing Plant | <u>46,788.52</u> |
| <u>Estimated Cost of Future Plant</u> | | |
| 315 | Well at New Location | \$ 7,600.00 |
| 324 | Pumping Equipment | 3,900.00 |
| 346 | Meters | <u>5,400.00</u> |
| | Total Future Plant | <u>16,900.00</u> |
| | Total Plant | <u>\$63,688.52</u> |

Financing

Attached as Exhibit C-1 to the first amendment to the application is the personal balance sheet of John Pestana as of September 26, 1960, which may be summarized as follows:

| | |
|---|------------------|
| Cash on deposit (in three banks) | \$172,869.50 |
| Investments in real properties (in four areas) | 413,500.00 |
| Investment in water system (Exhibit C) | <u>58,673.00</u> |
| Total Assets | \$645,042.50 |
| Liabilities | None |
| Net Worth | \$645,042.50 |

At the hearing applicant testified that his financial status was substantially the same as of the date of the above balance sheet. Exhibit No. 8 consists of a letter from the Fremont Branch of the Bank of America, certifying to applicant's financial integrity.

In the second amendment to the application, applicant claimed to be financially able to install the meters, well and pumping plant required as future installations, in addition to the investment already made in the water system. However, he proposed that the portion of the system consisting of the distribution mains, service connections and hydrants, totalling \$31,713.50 as shown in the foregoing tabulation of utility plant, be financed under the main extension rule. This means that if applicant were authorized to enter into an agreement with the subdividers to advance this portion of the cost of the system, applicant would be obligated to refund such an advance at the rate of 22 percent of gross revenues for a period of 20 years. Based on applicant's own estimates of revenues and expenses, it is obvious that the net revenues would be

insufficient to meet such payments, even when the tract may be fully developed and occupied by customers of the water system.

When apprised of the Commission's denial of a somewhat similar application involving a comparable method of financing,^{1/} applicant persisted in his request to be authorized to finance that portion of the plant as proposed but stated his willingness to finance the entire cost of utility plant with his own funds, rather than to jeopardize the granting of the requested certificate. The following is quoted from the Commission's earlier decision to which reference has been made:

"Applicant's proposal to acquire only a portion of the system through issuance of its stock and to acquire the balance under a revenue refund plan is at best a misapplication of the "Main Extension" rule. Main extension rules, as the very title should suggest, are designed for and applicable to the extension of mains from existing operative systems. They presuppose a going utility operation which is merely to be extended or enlarged. They are not applicable to the acquisition of whole new systems or portions thereof. The plan of acquisition herein is most inappropriate, and, in our opinion, adverse to the public interest."

It is our opinion that the same reasoning applies with equal force to the proposal in the instant proceeding. Applicant's request in this respect will be denied.

Estimated Results of Operations

In Exhibit F-1 attached to the second amendment to the application there is shown a summary of earnings with estimated operating revenues from 108 consumers using an average of 1,600 cubic feet of water per month, operating expenses as developed in Exhibit E-1, and depreciation expense computed as indicated in Exhibit G-1 at a rate of 3.6 percent on depreciable plant, including

^{1/} Decision No. 52010, dated October 4, 1955, in Applications No. 36997 and No. 37073 (54 CPUC 435), Woodside Oaks Water Company.

future additions but exclusive of the distribution system, services and fire hydrants.

The following tabulation sets forth a summary of operations with estimated operating revenues increased to include that obtainable from the six fire hydrants at applicant's proposed rate and with depreciation expense computed at a rate of 2.0 percent on all depreciable plant, totalling \$62,014, which rate is hereby found to be reasonable for the purposes of this proceeding, in view of the large proportion of total plant represented by distribution mains, services and fire hydrants constructed of materials having relatively long service lives.

SUMMARY OF ESTIMATED EARNINGS

| <u>Item</u> | | <u>Future Year</u> |
|----------------------------------|---------------|--------------------|
| <u>Operating Revenues</u> | | |
| From 108 Customers | | \$ 10,044 |
| From 6 Fire Hydrants | | 216 |
| Total | | <u>10,260</u> |
| <u>Expenses</u> | | |
| Operation and Maintenance | \$ 5,600 | |
| Taxes Other Than on Income | 710 | |
| Depreciation | <u>1,240</u> | <u>7,550</u> |
| Net Revenue, before Income Taxes | | 2,710 |
| <u>Income Taxes</u> | | |
| State Franchise | 30 | |
| Federal Income | <u>540</u> | <u>570</u> |
| Net Operating Revenue | | 2,140 |
| <u>Rate Base</u> | | |
| Total Plant | 63,690 | |
| Working Cash | 1,000 | |
| Materials and Supplies | 250 | |
| Subtotal | <u>64,940</u> | |
| Less 1/2 Year's Depreciation | <u>520</u> | |
| Average Depreciated Rate Base | | 64,320 |
| Rate of Return | | 3.3% |

Applicant is aware of the fact that little or no return on the investment in utility property can be expected until full development of the subdivision is accomplished, which he estimates will require about two years.

Commission Staff Participation

In addition to questioning of applicant's witnesses by members of the Commission's staff, a memorandum (Exhibit No. 14) was introduced in evidence, which covers the results of a field investigation by a staff engineer. He testified that the water system as designed and constructed to date meets the minimum requirements of the Commission's General Order No. 103 but that the presently installed pumping equipment is not of sufficient capacity to furnish water estimated to be needed when the tract is fully developed. It was his conclusion that the replacement of the presently installed single phase 5-horsepower boosters with 10-horsepower units and the addition of a third well as proposed by applicant will provide adequate water for the area requested to be certificated.

Until the existence of an adequate underground water supply in this general area is proven, the staff engineer recommended that any certificate granted be limited to Tract 230 and that before applicant extends service into other areas he be required to first obtain authorization from the Commission. He also recommended that before furnishing service to his 35th customer, applicant be required to provide additional water by the drilling of at least one additional well and, if necessary, the construction of additional storage and booster facilities to provide water in quantities sufficient to meet the minimum requirements of the Commission's General Order No. 103 for service to no less than 100 customers.

Miscellaneous

It is understood that no franchise is required by the County of Santa Cruz.

Exhibit No. 3 is a copy of a water supply permit granted September 26, 1960, to Santa Cruz Gardens, a California corporation, by the Health Officer of Santa Cruz County. Applicant will be expected to apply for a similar permit to be issued to himself as owner of the water system involved herein.

The rates as proposed by applicant will be authorized, except that the minimum charges for some of the larger sizes of meters will be increased somewhat to make them more consistent with the charge for the smallest meter size in relation to the delivery capacities of the various sizes of meters.

To set apart the property necessary for utility operations, the order herein will require that there be dedicated to public utility purposes the property on which are located any facilities necessary to the water utility operation, such as wells, pumping units, tanks and related facilities, as well as easements or rights of way for pipelines which are not located in public streets.

Findings and Conclusions

The Commission finds and concludes that it would not be in the public interest to authorize applicant to finance any portion of the water system required to render service to Tract 230 by application of the water main extension rule and that applicant's request to do so should be denied.

It appears, and we find, that applicant is financially able to acquire and construct the water system by the use of his own funds and to operate the water system during the development period

when little or no return on this utility investment will be realized from the operation thereof.

The Commission finds and concludes that public convenience and necessity require that the requested certificate be granted. We further find and conclude that the rates set forth in the appendix to the following order are fair and reasonable for the service to be rendered.

The certificate hereinafter granted 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.

O R D E R

The above-entitled application having been considered, a public hearing having been held, the matter having been submitted and now being ready for decision based on the evidence and the findings and conclusions thereon expressed in the foregoing opinion,

IT IS HEREBY ORDERED that a certificate of public convenience and necessity be and it is granted to John Pestana to construct and operate a public utility water system for the distribution and sale of water in that portion of Santa Cruz Gardens designated as Tract 230 located in unincorporated territory approximately one mile east of the City of Santa Cruz, Santa Cruz County, as shown on the maps attached to the application as Exhibits A and B; subject, however, to the following conditions:

- a. That applicant John Pestana shall finance the acquisition and construction of all of the facilities necessary to supply water to the said tract out of his own personal funds.
- b. That permission to finance that portion of the system consisting of distribution mains, service connections and hydrants in said tract under the main extension rule, as proposed by applicant, is specifically denied.

IT IS FURTHER ORDERED that:

1. Applicant is authorized to file, 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 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, 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 100 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. If the certificate herein granted is exercised, applicant shall dedicate to public utility purposes the land parcels or areas on which the wells, pumps, tanks, and related water facilities are located and any easements or permits where water mains are or will be located, otherwise than in streets dedicated to public use, including the easement or right of way for the transmission line from the pumping plant to the distribution system, and shall file with the Commission, not later than thirty days after the system is first placed in operation under the rates and rules authorized herein, one copy of each appropriate document showing such dedication, easement or permit.

6. If the certificate herein granted is exercised, applicant shall proceed with his proposed plan to obtain an additional water supply by the drilling of one or more additional wells and, if necessary, by the construction of additional water storage and booster facilities so as to provide a total water supply for the system in a manner acceptable to the Commission and in sufficient quantities to meet the minimum requirements of the Commission's General Order No. 103 for service to no less than 108 customers. Within fifteen days after such facilities have been installed and placed in operation, applicant shall file with the Commission a written report containing such details as the tested production of water from the well or wells, the quantity of any additional storage provided, and the horsepower and pumping capacity of such well- and

booster-units as may have been installed. Until the time that such additional water supply facilities have been placed in operation, applicant shall render water service to no more than thirty-four customers within his certificated service area.

7. Applicant shall not extend service outside the Tract 230 certificated herein without authority first having been obtained from this Commission.

8. Except to the extent authorized herein, the application is hereby denied.

The certificate herein granted and the authority to render service under the rates and rules authorized herein will expire if not exercised within one year after the effective date of this order.

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

Dated at San Francisco, California, this 21st day of March, 1961.

Carroll R. ...

President

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George E. ...

Frederick B. Holoboff

Commissioners