

ORIGINAL

Decision No. 63016

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
GARDEN WATER CORPORATION, a corpora-
tion, for a Certificate of Public
Convenience and Necessity authorizing
Applicant to furnish water service to
Tracts 2394 and 2427 in the vicinity
of Bakersfield, Kern County,
California.

)
) Application No. 43161
) (Filed February 16, 1961)
) (Amendment filed
) June 16, 1961)

In the Matter of the Application of
GARDEN WATER CORPORATION, a corpora-
tion, for authority to increase water
rates in the vicinity of Bakersfield,
Kern County, California.

)
) Application No. 43552
) (Filed June 27, 1961)

Gibson, Dunn & Crutcher, by Raymond L. Curran
for applicant.
Charles Carlstroem, Deputy County Counsel, for
County of Kern and water users, protestants.
Alfred V. Day, L. L. Thormod and H. H. Webster,
for the Commission staff.

O P I N I O NHearings

Public hearings on these applications were held on a consolidated record before Examiner E. Ronald Foster at Bakersfield on August 30 and 31, 1961. Application No. 43161 was taken under submission on the second day of hearing, subject to the later filing of an exhibit by applicant, which was received on September 11, 1961. An adjourned hearing on Application No. 43552 was held before Examiner Foster at Bakersfield on October 25, 1961, on which date it was submitted for decision.

Copies of the two applications had been served and notices of hearings on the two matters had been given in accordance with the Commission's procedural rules.

Interest in the rate increase application, particularly, was shown by the attendance of about 50 water users on the first day of hearing; some of whom testified in protest against the proposed increase in rates for water service. A Deputy County Counsel introduced a resolution (Exhibit No. 1) passed by the Board of Supervisors of Kern County on August 29, 1961, on behalf of the County of Kern and of consumers of water from applicant, protesting against the increases requested by applicant as being excessive and requesting the Commission to make a full and complete examination of all of the facts pertaining to the matter and to grant only such increases as may be determined by the Commission to be just and reasonable under the circumstances. Some 20 consumers were present at the hearing on October 25.

History of the Utility and Definition
of the Present Service Area

By Decision No. 36186, dated February 23, 1943, in Application No. 25250, a certificate of public convenience and necessity was granted to Marshall and Ethel Gibson to operate a public utility for the sale and distribution of water within two adjoining subdivisions known as Rexland Acres Tract No. 827 and Garden Acres Tract No. 1093 (see map, Exhibit No. 4-A), comprising about 90 and 50 acres, respectively, located approximately five miles south of the center of the city of Bakersfield and lying on the east side of U. S. Highway No. 99, also known as Union Avenue, and south of the county highway known as Pacheco Road.

After two intermediate transfers, the ownership of the utility was transferred to Garden Water Corporation, a corporation, as authorized by Decision No. 53810, dated September 25, 1956, in Application No. 36883.

Water service has been extended into contiguous territory ✓ southward across Fairview Road (see map, Exhibit No. 4-B) and also northward across Pacheco Road, on the east side of U. S. Highway No. 99. Water service has also been extended to a portion of the southeast quarter of Section 18 which lies west of U. S. Highway No. 99 and north of Pacheco Road. Upon making such extensions, applicant has filed with the Commission revised service area maps. There is no physical connection between the facilities in the areas on the two sides of U. S. Highway No. 99.

The last revised service area map filed with the Commission shows applicant's present service area, which includes its initially certificated area and the areas to which extensions have been made, substantially as indicated on the map filed herein as Exhibit No. 5. For the purposes herein, the portion of the service area lying east of U. S. Highway No. 99 will sometimes be called the Rexland Area and the portion of the service area lying west of the highway will sometimes be called the Gordon Area, from the name of the street on which the well is located (see map, Exhibit No. 3). In the Gordon Area, service is presently being rendered primarily in the central northern portion thereof, bounded by Janet Avenue on the south and by White Lane on the north, although a few customers are served in the southeast corner of the Gordon Area near the intersection of U. S. Highway No. 99 and Pacheco Road.

In the Rexland Area, comprising some 400 acres, there are three operating wells capable of producing a total supply of 850 gallons per minute with their present pumping equipment. As of January 1, 1961, there were reported to be 724 active service connections, of which 473 were metered and 251 were unmetered.

In the Gordon Area, which includes a total of 160 acres, there is now only one well, with a production capacity of 330 gallons per minute, as now equipped with a 20-horsepower pumping unit. Applicant's general manager testified that a second source of supply for this system would be installed before the end of the calendar year 1961. As of January 1, 1961, there were three metered and 107 unmetered customers being served in this area.

Applicant's Requests

By Application No. 43161, as amended by the filing on June 16, 1961, and as further orally amended at the hearing in this proceeding, the Commission is requested to grant to applicant a certificate of public convenience and necessity to operate a public utility for the sale and distribution of water (1) in the areas lying on both sides of U. S. Highway No. 99 which include applicant's present service area and (2) in certain tracts, and vicinity, lying in an area south of Pacheco Road and west of South "H" Street, which area is approximately one-half mile west of applicant's present service area. The areas, all in Kern County, may be described as follows:

1. Present Service Area (and vicinity)

- (a) The northerly three-quarters of that portion of Section 20, Township 30 South, Range 23 East, M.D.B. & M., lying westerly of the Central Branch of the Kern Island Canal; and the south half of the southerly half of that portion of Section 17, T. 30 S., R. 23 E., M.D.B. & M., lying westerly of the Central Branch of the Kern Island Canal.
- (b) The southeast quarter of Section 13, T. 30 S., R. 23 E., M.D.B. & M.

NOTE: Above areas in (a) correspond to the Rexland Area and area (b) corresponds to the Gordon Area as previously described.

2. Requested New Area

That portion of the north half of Section 24, T. 30 S., R. 27 E., M.D.B. & M., lying easterly of the right of way of the freeway, now under construction, designated as U. S. Highway No. 99, Alternate (see map, Exhibit No. 5).

Applicant alleges that the certificate as requested is desirable and in the public interest in order to permit the orderly and economic planning of adequate water supply and distribution facilities in the areas, even though service is not now actually being rendered in every part of the present service area, and although subdivisions have not yet been laid out to cover the entire requested new area. Applicant has no immediate plans for physically interconnecting the new area and the present service area; the distance between the nearest existing facilities in these two areas is over three-fourths of a mile.

Applicant proposes to furnish water service in the new area at the same rates as now authorized for the present service area or as they may be hereafter authorized for that area.

In Application No. 43552, the Commission is requested to authorize applicant to increase the rates for all service to be rendered, both metered and residential flat rate. The rates requested to be authorized would increase applicant's operating revenues over those obtainable from the rates now in effect by almost fifty percent.

Rates, Present and Proposed

Applicant's present rates became effective June 1, 1958, by authority of Decision No. 56573, dated April 22, 1958, in Application No. 39341. Before that time few, if any, services were

metered; the subsequent metering program has resulted in placing meters on about 57 percent of all services as of January 1, 1961.

The following tabulation provides a comparison of the presently filed rates with those proposed by applicant, for both general metered service and residential flat rate service:

GENERAL METERED SERVICE

Item	Per Meter Per Month			
	Present	Proposed	Increase	
	Rates	Rates	Amount	Percent
Quantity Rates:				
First 1,000 cu.ft. or less	\$2.00	\$3.00	\$1.00	50.0%
Next 3,000 cu.ft., per 100 cu.ft.	.12	.13	.06	50.0
Over 4,000 cu.ft., per 100 cu.ft.	.10	.15	.05	50.0
Minimum Charges:				
For 5/8 x 3/4-inch meter	2.00	3.00	1.00	50.0
For 3/4-inch meter	3.00	4.00	1.00	33.3
For 1-inch meter	5.00	6.00	1.00	20.0
For 1½-inch meter	10.00	10.00	-	-
For 2-inch meter	15.00	15.00	-	-
For 3-inch meter	25.00	25.00	-	-
For 4-inch meter	40.00	40.00	-	-

RESIDENTIAL FLAT RATE SERVICE

Item	Per Service Connection Per Month			
	Present	Proposed	Increase	
	Rates	Rates	Amount	Percent
For a single family residence including premises not exceeding 10,000 square feet in area. . .				
	\$3.00	\$4.50	\$1.50	50.0%
a. For each additional residence on the same premises and served from the same service connection				
	1.75	2.25	.50	28.6
b. For each 100 square feet of area in excess of 10,000 square feet.				
	.02	.03	.01	50.0

For the typical residential customer, the proposed flat rates would mean an annual cost of about \$54 for water service

rather than \$36 at present rates, and the proposed meter rates would result in an annual cost of about \$63 rather than \$42 at present rates.

There are no rates on file for the hydrants now installed. Applicant's witness stated that he does not object to filing appropriate rates for public fire hydrant service; however, he feels that such a filing would be meaningless, inasmuch as the county agency which provides fire protection in this unincorporated area has never agreed to accept charges by public utilities for such service.

New Area Requested
to be Certificated

The new area in which applicant proposes to furnish water service, which for the purposes herein will sometimes be called the Pacheco Area, comprises about 211½ acres. In this area there are being developed two groups of subdivisions known as Del Mar Park and Treasure Park. Del Mar Park, containing about 24 acres in the northeasterly portion of the Pacheco Area, now consists of three adjoining subdivisions, Tract No. 2394 and Tract No. 2427 (see map, Exhibit No. 8), and Tract No. 2556 (see map, Exhibit No. 13). Treasure Park, containing about 51½ acres in the western portion of the Pacheco Area, consists of eight adjoining subdivisions, Tracts No. 2497 to No. 2504, inclusive (see maps, Exhibits No. 9-A and No. 9-B). Del Mar Park and Treasure Park are separated 1,320 feet by a 40-acre unsubdivided area. There are about 96 more acres within the Pacheco Area which are not yet subdivided.

The Del Mar Park subdividers have installed the water supply and distribution facilities in Tracts No. 2394 and No. 2427, which together contain 73 lots, of which 70 will be available for

residential purposes varying in area from about 6,900 to 7,500 square feet. A deep well was drilled on Lot 54, at the western edge of Tract No. 2427, which produced approximately 2,500 gallons per minute of water of satisfactory quality for domestic use (see laboratory reports, Exhibits Nos. 6 and 7). This well is presently equipped with a 650 g.p.m. pump driven by a gasoline engine. The Pacific Gas and Electric Company has refused to supply electrical service to this installation because the well was drilled within the power company's right of way (see Exhibit No. 14). Applicant and subdivider are trying to work out a satisfactory agreement with the power company; if unsuccessful, applicant's testimony indicates that the subdivider will drill a replacement well.

The Treasure Park subdividers have likewise installed the water supply and distribution facilities in Tracts No. 2497 and No. 2498, which together contain 70 residential lots with areas of 6,600 square feet or more. A deep well was drilled on a small parcel at the rear of Lot 1, in the northwest corner of Tract No. 2497, which is reported to be capable of producing water similar in quality and quantity to that from the well in Tract No. 2427. This well is equipped with a 75 h.p. electrically powered pump estimated to produce in excess of 750 g.p.m. against the system operating pressure. At first controlled by use of an altitude valve, a hydropneumatic tank, with automatic pressure control switches, was being installed at this location on the last day of hearing.

A six-inch water main has been installed between the two distribution systems, so that the pumping plant in Tract No. 2497 is being used to supply water to both groups of subdivisions, with the one in Tract No. 2427 serving as a stand-by source at the present

time. Homes are being built in all four tracts and some are occupied. As of July 20, 1961, there were 41 active services being supplied with water. Including 28 lots in Tract No. 2556, there is a total of 92 residential lots in the three tracts of Del Mar Park. In the eight tracts of Treasure Park there is a total of 225 lots. It is anticipated that the construction of homes will continue in all of the subdivisions of the entire Pacheco Area.

In the application, as amended, on June 16, 1961, applicant proposed to acquire the water production and distribution facilities in Tracts No. 2394, No. 2427, No. 2497 and No. 2498 from the developers of the subdivisions. It was originally proposed that the well sites, wells, pumping equipment, and pressure tanks would be acquired for cash by applicant from the developers and that the distribution systems, consisting of the mains, valves, fire hydrants and services, would be acquired in accordance with the provisions of applicant's filed Rule No. 15,C.2.b, relating to main extensions.

At the hearing, applicant's president and general manager orally amended the previous proposal by stating, in effect, that the distribution systems in the initial four tracts, as well as the related water supply facilities would be acquired by means of equity financing in order to improve the financial structure of the corporation. Thereafter, it is applicant's intention to extend service to adjoining subdivisions under the provisions of its filed main extension rule.

However financed, applicant proposes to acquire the facilities at the subdividers' actual cost, as evidenced by invoices. Exhibit No. 10 shows applicant's estimated cost of the water production and distribution facilities for the 73 lots in Tracts

Nos. 2394 and 2427. Applicant later admitted that the estimated cost of \$24,250 for the water production facilities in Tracts No. 2394 and No. 2427 is excessive and that the actual cost would probably be approximately \$13,000, the same as the estimated cost of the water production facilities in Tracts No. 2497 and No. 2498. As thus revised, it was these costs, totaling \$43,693, that applicant included in its late-filed Exhibit No. 16.

Based on a verification of all available invoices, the Commission staff estimated the costs of the water supply facilities and of the distribution systems in Tracts No. 2394 and No. 2427 and in Tracts No. 2497 and No. 2498. From these data, the staff also estimated the costs of the distribution systems for the other seven tracts in the Pacheco Area, on a proportional basis. The staff's estimated costs of the several components of the facilities required to render service in the eleven subdivisions in the Pacheco Area are shown in the following tabulation:

Tract Numbers	Number: of Lots	Water Distribution: Systems	Water Production: Facilities	Total
2394 and 2427	73	\$10,800	\$10,700	\$21,500
2497 and 2498	70	10,650	13,000	23,650
Subtotal	143	\$21,450	\$23,700	\$45,150
2556	23	4,250	-	4,250
2499 to 2504, incl.	155	23,550	-	23,550
Total	326	\$49,250	\$23,700	\$72,950

NOTE: No amount has been included in the above tabulation for the 6-inch pipeline installed to interconnect the distribution system in Del Mar Park with that in Treasure Park.

Applicant's Financial Position

Applicant was incorporated January 31, 1955. Its Articles of Incorporation, filed as part of Application No. 36883 and which have not been amended, shows that it is authorized to issue only one

class of shares of stock, the total number of which is 1,000 at a par value of \$100 per share, with an aggregate par value of \$100,000. There are 375 shares of stock outstanding, at a total par value of \$37,500, as authorized by Decision No. 53810, dated September 25, 1956, in Application No. 36883.

The stock is held by Robert E. Schweser and William E. Buckner who are also affiliated with each other through stock ownership in other enterprises, one of which is Rosa Water Company, a public water utility corporation under the jurisdiction of the Commission, located in Ventura County. Mr. Buckner is president and general manager of Garden Water Corporation and president of Rosa Water Company.

The following comparative balance sheets and income statements are condensed from Tables I and II of Exhibit No. 15 prepared by staff members of the Commission's Finance and Accounts Division.

GARDEN WATER CORPORATION
Comparative Balance Sheets

Item	: Dec. 31 : : 1959 :	: Dec. 31 : : 1960 :	: June 30 : : 1961 :
<u>ASSETS</u>			
Utility Plant	\$136,097	\$181,884	\$189,987
Less Reserve for Depreciation	19,635	24,293	27,179
Net Utility Plant	<u>116,462</u>	<u>157,591</u>	<u>162,808</u>
<u>Current and Accrued Assets</u>			
Cash	(1,283)	(838)	(1,468)
Accounts Receivable	861	2,830	4,654
Miscellaneous Other	165	814	1,234
Subtotal	<u>(257)</u>	<u>2,806</u>	<u>4,420</u>
Total Assets and Other Debits	<u>116,205</u>	<u>160,397</u>	<u>167,228</u>

(Negative figure)

(Continued)

GARDEN WATER CORPORATION
Comparative Balance Sheets
(Continued)

Item	Dec. 31 1959	Dec. 31 1960	June 30 1961
<u>LIABILITIES</u>			
Common Capital Stock	\$ 37,500	\$ 37,500	\$ 37,500
Capital Surplus	(87)	(87)	-
Earned Surplus	(5,975)	(9,973)	(12,139)
Total Equity	31,438	27,440	25,311
Misc. Long-Term Debt	-	5,551	3,302
<u>Current and Accrued Liabilities</u>			
Notes Payable	23,254	39,089	50,889
Accounts Payable	9,854	7,700	6,720
Customers' Deposits	1,109	1,659	2,080
Taxes Accrued	1,457	2,669	2,569
Other	1,900	1,021	1,089
Subtotal	37,574	52,138	63,347
<u>Deferred Credits</u>			
Advances for Construction	42,485	70,560	70,560
Contributions in Aid of Construction	4,708	4,708	4,708
Total Liabilities and Other Credits	116,205	160,397	167,228

(Negative figure)

Comparative Income Statements

Item	Year Ended Dec. 31 1959	6 Mos. Ended 1960	June 30, 1961
<u>Operating Revenues</u>			
Metered Sales	\$ 8,527	\$20,412	\$10,799
Unmetered Sales	18,501	12,503	6,721
Misc. Other	-	-	39
Total Revenue	27,028	32,915	17,559
<u>Deductions</u>			
Operating Expenses	\$23,369	\$28,571	\$16,425
Depreciation	4,141	4,657	2,886
Taxes	1,593	2,334	563
Total Deductions	29,103	35,562	19,874
Net Operating Income	(2,075)	(2,647)	(2,315)

(Loss)

The staff's financial and accounting report covered the four-year period from July 1, 1957 through June 30, 1961. During this period, the applicant has experienced operating losses totaling

\$9,207, resulting in a deterioration of its financial condition. During the same period, the investment in plant increased \$129,245, of which \$71,770 was financed by advances for construction. Refunds of these advances amounting to \$6,901 have been made, of which \$367 was refunded in cash and \$6,534 was refunded by the issuance of demand notes. Unrefunded amounts now due and payable, as computed by applicant, amount to \$2,665 extending from December 31, 1959 to March 31, 1961.

The effect of these advances for construction upon applicant's capital structure is indicated in the tabulation on page 2 of Exhibit No. 15, where it is shown that the proportion of equity capital was reduced from 78.4 percent as of July 1, 1957 to 51.9 percent as of June 30, 1961, while the proportion of advances for construction increased from 21.6 percent to 48.1 percent during the same time.

The following pro forma tabulations indicate the further effect upon its capital structure if applicant acquires the facilities in the Pacheco Area as proposed in Application No. 43161, as amended, on the basis of estimated costs hereinbefore set forth. Table A shows the effect, in two steps, if only the water production facilities were to be financed by means of equity capital and the distribution systems were to be acquired by obtaining advances for construction, as originally proposed, first in four tracts and eventually in all eleven. This shows that the proportion of total capital represented by advances for construction would increase to 54.5 percent, if it is assumed that no refunds on said advances would be made. Since this condition is not likely to occur, and an undetermined amount of refunds will undoubtedly be made,

applicant's equity position will gradually improve somewhat over that indicated herein, especially in view of the probable installation of meters and of additional backup facilities by applicant.

CAPITAL STRUCTURE -- TABLE A

Item	Balances		Facilities Added as per			
	June 30, 1961		Original Proposal			
	Amount	Percent	First 4 Tracts	Percent	All 11 Tracts	Percent
Common Stock	\$37,500	25.5%	\$37,500	19.5%	\$37,500	17.1%
Notes Payable ^{1/}	50,889	34.7	50,889	26.5	50,889	23.2
Surplus	(12,189)	(8.3)	(12,189)	(6.3)	(12,189)	(5.6)
Other Equity	-	-	23,700 ^{2/}	12.4	23,700 ^{2/}	10.8
Total Equity	76,200	51.9	99,900	52.1	99,900	45.5
Advances for Construction	70,560	48.1	92,010 ^{3/}	47.9	119,810 ^{4/}	54.5
Total	146,760	100.0	191,910	100.0	219,710	100.0
			(Negative figure)			

1/ Notes payable to stockholders considered as equity capital.

2/ Estimated cost of water production facilities only in Tracts 2394, 2427, 2497 and 2498.

3/ Includes \$21,450 for distribution systems in Tracts 2394, 2427, 2497 and 2498.

4/ Includes additional \$27,800 for distribution systems in Tract 2556 and Tracts 2499 to 2504, inclusive.

For comparison, Table B shows the effect, also in two steps, if the water production facilities and the distribution systems in the first four tracts were to be financed by means of equity capital, as applicant's proposal was orally amended at the hearing, and the distribution systems in the remaining seven tracts were to be later acquired by obtaining advances for construction, all on the basis of the same estimated costs.

CAPITAL STRUCTURE -- TABLE B

Item	Balances		Facilities Added as per			
			Amended Proposal			
	June 30, 1961		First 4 Tracts		All 11 Tracts	
	Amount	Percent	Amount	Percent	Amount	Percent
Common Stock	\$37,500	25.5%	\$37,500	19.5%	\$37,500	17.1%
Notes Payable ^{1/}	50,889	34.7	50,889	26.5	50,889	23.2
Surplus	(12,189)	(8.3)	(12,189)	(6.3)	(12,189)	(5.6)
Other Equity	-	-	45,150 ^{2/}	23.5	45,150 ^{2/}	20.5
Total Equity	76,200	51.9	121,350	63.2	121,350	55.2
Advances for Construction	-70,560	48.1	70,560	36.8	98,360 ^{3/}	44.8
Total	146,760	100.0	191,910	100.0	219,710	100.0
	(Negative Figure)					

1/ Notes payable to stockholders considered as equity capital.

2/ Includes \$23,700 for water production facilities and \$21,450 for distribution systems in Tracts 2394, 2427, 2497 and 2498.

3/ Includes \$27,800 for distribution systems in Tract 2556 and Tracts 2499 to 2504, inclusive.

From the foregoing Table B it may be observed that the proportion of total capital represented by advances for construction would first decrease to 36.8 percent and then increase to 44.8 percent, as compared with 54.5 percent in Table A.

It is evident that the acquisition from the subdividers of the water properties existing in the first four tracts in the manner represented in Table B will result in a sounder capital structure for applicant. This is much to be desired in view of applicant's financial position as revealed by its last balance sheet.

The Commission finds that it will not be adverse to the public interest to authorize applicant to acquire the water properties in the initial four tracts in the Pacheco Area in accordance with its proposal to finance such acquisitions by means of issuing such equity capital in payment therefor as the Commission may hereafter authorize. Applicant's president and general manager testified that the exact manner of financing these acquisitions had not yet been determined

but that applicant might request authorization to issue additional common stock; 5% preferred noncumulative, non-voting stock; or some other form of securities.

The Pacheco Area is not contiguous to applicant's present service area and it is so far distant that it would not be practicable to serve it by extending mains from applicant's existing facilities. As proposed, this acquisition by applicant will constitute the nucleus of a new service area, with sufficient water production facilities, from which extensions into contiguous territory under applicant's filed main extension rule appear to be feasible. Other than applicant, no public utility water system is operating in the area for which certification is sought.

Customer Participation

A petition (Exhibit No. 2), signed by customers at 17 locations in the Gordon Area, protested the requested rate increase as excessive. In addition, two residents of that area testified in complaint of extreme variations in pressure and outages of service on several occasions. Other customers, residents in the Rexland Area, testified in regard to low pressures and alleged discrimination in the practice of metering some premises while others are supplied with water at flat rates.

The Commission staff's investigation also indicated that serious service deficiencies exist in both parts of applicant's present service area. In its report (Exhibit No. 26), the staff recommended a number of plant improvements for overcoming such deficiencies and bettering the service. Applicant's president testified to the intention of making these improvements essentially in accordance with the staff's recommendations.

Applicant plans eventually to place meters on all existing flat rate services, in its present service area, at the rate of about 100 meters per year.

Two customers testified that the cost of water in large quantities, such as those required for a public park, are prohibitive even at the present rates.

Summary of Results of Operation

Showings by both applicant and the Commission's staff reveal operating losses resulting from the revenues obtainable at the rates presently in effect.

Details of applicant's estimate of revenues at the proposed rates, operating and other expenses, utility plant and rate base are shown for test year 1961-62 in Exhibits Nos. 22, 23 and 24, which may be summarized as follows:

Applicant's Estimate of Earnings and
Rate of Return for the Test Year 1961-62

<u>Operating Revenues</u>			
Metered Sales (560 customers)			\$ 34,395
Unmetered Sales (480 customers)			25,540
Miscellaneous Income			100
Total Revenue			<u>60,035</u>
<u>Deductions</u>			
Operating Expense	\$39,303		
Taxes, Other Than Income	2,750		
Depreciation Expense	6,080		
Taxes on Income	<u>4,285</u>		
Total Deductions			<u>52,418</u>
Net Revenue			<u>7,617</u>
<u>Rate Base</u>			
Utility Plant*	181,834		
Less Reserve for Depreciation*	<u>24,293</u>		
Net Plant	157,591		
Proposed Additions to Plant	<u>47,000</u>		
Total Net Plant		\$204,591	
<u>Deductions</u>			
Advances for Constr.*	70,560		
Contributions*	<u>4,708</u>		
Total Deductions		<u>75,268</u>	
Rate Base			\$129,323
Rate of Return			5.9%

* Balances as of December 31, 1960.

In the foregoing tabulation, the revenues shown include those anticipated to be obtained from customers in the new area for which a certificate is requested. The proposed additions to plant, according to applicant's testimony, include only the acquisition of the facilities in the two sets of tracts in the said new area; therefore, applicant has included nothing in the rate base for the improvements to be installed in the present service area, such as those described and estimated in applicant's Exhibit No. 21.

The staff's report, Exhibit No. 26, shows the results of applicant's operations for the year 1960 recorded and adjusted and for the year 1961 estimated. The following tabulation presents a summary thereof, with operating revenues estimated at the rates proposed by applicant:

CPUC Staff's Summary of Earnings For
Year 1960 Adjusted and Year 1961 Estimated

<u>Items</u>	<u>Year 1960 Adjusted</u>	<u>Year 1961 Estimated</u>
<u>Operating Revenues</u>		
Metered Sales*	\$ 27,280	\$ 34,020
Unmetered Sales*	19,610	24,320
Other Revenues	100	100
Total Revenues	<u>46,990</u>	<u>58,440</u>
<u>Deductions</u>		
Operating Expenses	28,310	33,160
Taxes Other Than Income	5,530	6,250
Depreciation Expense	5,680	6,510
Taxes on Income	2,530	4,240
Total Deductions	<u>42,050</u>	<u>50,160</u>
Net Revenues	<u>4,940</u>	<u>8,280</u>
<u>Rate Base</u>		
Average Adjusted Utility Plant	\$256,300	\$293,450
Average Adjusted Depreciation Res.	21,450	27,550
Average Adjusted Net Plant	<u>234,850</u>	<u>265,900</u>
Materials and Supplies	150	150
Working Cash Allowance	2,500	2,800
Subtotal	<u>237,500</u>	<u>268,850</u>
<u>Deductions</u>		
Average Unrefunded Advances for Constr.	104,200	120,700
Contribution in Aid of Construction	4,700	4,700
Subtotal	<u>108,900</u>	<u>125,400</u>
Average Depreciated Rate Base	128,600	143,450
Rate of Return	3.34%	5.77%
 *Average Number of Customers:		
Metered	404	504
Unmetered	363	450
Total	<u>767</u>	<u>954</u>

The foregoing tabulation includes estimated revenues from customers in all service areas, i.e. the two areas presently being served and the areas in the requested new certificated area.

In the rate bases as shown, in addition to the present operating utility plant, an estimated amount of \$98,000 has been included for both test years. Parts of this amount are the costs (detailed in a tabulation hereinbefore) of the water production facilities, estimated at \$23,700, and of the distribution systems,

estimated at \$49,250, making a total of \$72,950, necessary to serve customers in the eleven tracts in the requested new certificated area. In addition, the estimated costs of the following improvements in the existing service area have been included:

a.	Installation of a fence around the Gordon Avenue Pump Station	\$ 400
b.	Improvement of the Rexland Avenue well and pumping equipment	4,500
c.	A second source of supply and pump station for the Gordon Area.	8,100
d.	Installation of 1,620 feet of 8-inch pipe from the Rexland Station to the intersection of Garber Way and Pacheco Road	8,950
e.	Installation of 750 feet of 4-inch pipe on Bryant Street westerly from Garber Way	<u>3,100</u>
	Total Improvements	\$25,050

In its rate base estimates, the staff has assumed the position that the use of applicant's filed main extension tariff Rule No. 15 is mandatory upon applicant. In the foregoing tabulation, unrefunded advances for construction were treated accordingly. To the extent that the distribution systems are acquired by the investment of applicant's own funds, as now proposed by applicant, the rate bases and rates of return will be affected. The staff has estimated separate rates of return to compare the effect of applicant's certification requests as amended. The following tabulation sets forth the staff's results:

Comparison of Rates of Return at Proposed Rates

<u>Basis of Investment with Applicant's Own Funds</u>	<u>1960 Adjusted</u>	<u>1961 Estimated</u>
A. Plant in present service area, plus water production facilities only in new area.	3.84%	5.77%
B. Plant in present service area, plus water production facilities and distribution facilities in first four tracts in new area.	3.29%	5.02%
C. Plant in present service area, only.	7.06%	8.21%

Note: Rate bases in all three alternative cases include \$25,050 for improvements in the present service area.

It may be observed that in any case a substantial upward trend in the rate of return is indicated, which may be ascribed to the anticipated increase in the number of customers, both in the present service area and the proposed new area. As indicated in the last tabulation, a greater rate of increase in the rate of return is evident when the new areas are combined with the present service areas. According to the staff's testimony, as customers are added in the new area, the rate of return level for the combined areas will rapidly approach 7 to 8 percent and the rate of increase in the rate of return will decrease to about one percent per year.

As compared with applicant's estimates, the staff's estimates are more accurate, realistic and informative. They are hereby adopted as fair and reasonable for the purpose of testing the reasonableness of the rates proposed by applicant and of rates to be authorized in this proceeding.

In order that the customers in the present service area will not be unduly and unreasonably burdened with the higher rates which might be considered necessary to produce a reasonable over-all

rate of return to applicant, pending the period of customer growth in the new area being certificated herein, consideration will be given to the level of rates which would be required to render a reasonable rate of return to applicant, were such rates to produce revenues only from the customers served by the facilities in the existing service area.

In view of the indicated upward trend in the rate of return, rates will be authorized which are estimated to produce net revenues sufficient to render a rate of return, considering the present service area only (alternate Case C in the foregoing tabulation), of 5.85 percent pro forma for the test year 1961 and 7.0 percent for a year in the immediate future. Such rates will produce estimated revenues from all areas (on the basis of alternate Case B in the foregoing tabulation) sufficient to render a rate of return of 3.3 percent pro forma for the test year 1961 and 5.0 percent for a year in the immediate future, which latter rate of return is fair and reasonable under the circumstances existing herein.

Applicant is placed on notice that it should meet the minimum requirements of General Order No. 103 in connection with all future construction of facilities and also with respect to pressure surveys and appropriate pressure gauges as specified in Paragraphs II-3.b and II-3.c, respectively.

Findings and Conclusions

Upon consideration of the evidence the Commission finds and concludes as follows:

1. Public convenience and necessity require that the application for a certificate of public convenience and necessity be granted as set forth in the ensuing order, in the following two general areas:

- a. Applicant's existing service area, and vicinity, located on both sides of U. S. Highway 99, hereinabove described as the Rexland Area and the Gordon Area, comprising about 560 acres.
- b. That part of the Pacheco Area, hereinabove described, consisting of the north half of the northeast quarter and the portion of the northwest quarter lying easterly of the freeway designated as U. S. Highway 99, Alternate, all in Section 24, T. 30 S., R. 27 E., M.D.B. & M., comprising about 131½ acres.

Applicant has not made sufficient showing that public convenience and necessity require it to serve the south half of the northeast quarter of said Section 24, consisting of about 80 acres. The exclusion of a part of the proposed Pacheco Area from the certificate granted herein should not and does not preclude applicant from extending service in the ordinary course of its business, as permitted by Section 1001 of the Public Utilities Code, to whatever portions of the excluded area are contiguous to applicant's water systems.

2. Applicant possesses the financial resources to acquire and operate the water systems in the new area for which a certificate is sought, and also to construct the necessary improvements and additions to the water systems in its present service areas.

3. With the firm acquisition of a second source of supply and upon elimination of certain dead-end mains, the water supply and distribution facilities in the proposed new certificated area will provide reasonable service and will meet the minimum requirements of General Order No. 103.

4. The estimates of operating revenues, expenses (including taxes and depreciation) and rate bases developed by the staff for the test years 1960 and 1961 are reasonable and they will be, and hereby are, adopted for the purpose of testing applicant's need for increased revenues.

5. The revenues obtainable from applicant's present rates are deficient and applicant is entitled to an increase in revenues.

6. The rates proposed by applicant are higher than can be justified for the water service to be rendered and they would produce revenues greater than, and the resulting rate of return on the adopted rate bases would be in excess of, those which are reasonable.

7. The rates hereinafter authorized, as set forth in Appendix A following the order herein, would have produced for the year 1961 total operating revenues of about \$54,100, had such rates been in effect for that year. This represents an increase of \$15,100, or about 38.7 percent, over the revenues obtainable for the same year at the rates presently in effect. The resulting estimated rate of return of 5.0 percent, for a year in the immediate future, is fair and reasonable for this utility.

8. The increases in rates and charges authorized herein are justified, the rates and charges set forth in Appendix A attached hereto are fair and reasonable for the service to be rendered, and the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

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

Public hearings having been held and based upon the evidence therein adduced,

IT IS ORDERED that:

1. A certificate of public convenience and necessity be, and it hereby is, granted to Garden Water Corporation, a corporation, to acquire, construct and operate a public utility water system, or systems, for the distribution and sale of water within the following unincorporated territory in Kern County:

- a. The northerly three-quarters of that portion of Section 20, T. 30 S., R. 28 E., M.D.B. & M., lying westerly of the Central Branch of the Kern Island Canal; the south half of the southerly half of that portion of Section 17, T. 30 S., R. 28 E., M.D.B. & M., lying westerly of the Central Branch of the Kern Island Canal; and the southeast quarter of Section 18, T. 30 S., R. 28 E., M.D.B. & M.
- b. The north half of the northeast quarter of Section 24, T. 30 S., R. 27 E., M.D.B. & M., and the portion of the northwest quarter of said Section 24 lying easterly of the freeway designated as U. S. Highway No. 99, Alternate.

2. The certificate granted in paragraph 1 of this order pertaining to the area described in sub-paragraph b thereof shall not become effective until applicant shall have accomplished the following in a manner acceptable to this Commission:

- a. Eliminate the dead ends in Pandora Place and Penelope Place in Tract No. 2427, by extending northward the 4-inch pipelines laid therein, to interconnect with the existing 4-inch pipeline in Pacheco Road, or otherwise.

- b. Provide a second source of water supply, supplementing the one in Tract No. 2497, either by resolving the dispute with Pacific Gas and Electric Company regarding the use of the present well in Lot 54 in Tract No. 2427, or by the drilling and equipping of a substitute well to produce water of comparable characteristics and in similar quantities, or otherwise.

Applicant shall notify the Commission in writing of the manner in which the two requirements in this paragraph 2 have been satisfied, within fifteen days thereafter; if the Commission finds that applicant has met said requirements, a supplemental order to that effect will be issued.

3. Applicant is authorized to finance the acquisition and construction of all of the facilities necessary to supply water to Tracts Nos. 2394 and 2427 and to Tracts Nos. 2497 and 2498, including the pipeline interconnecting the two sets of tracts, by means of equity capital rather than by advances for construction under the main extension rule.

4. Applicant is authorized and directed to file in quadruplicate with this Commission, after the effective date of this order, in conformity with the provisions of General Order No. 96, the rates set forth in Appendix A attached to this order and, upon not less than five days' notice to this Commission and to the public, to make said rates effective for all service rendered on and after February 1, 1962, within the area described in paragraph 1.a of this order, and to apply the said rates within the area described in paragraph 1.b of this order as provided by paragraph 6 following.

5. Within forty-five days after the effective date of this order, applicant shall file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96 and in a

manner acceptable to the Commission, rules governing customer relations revised to reflect present day operating practices and sample copies of printed forms that are normally used in conjunction with customers' services. Such rules and sample forms shall become effective upon five days' notice to this Commission and to the public after filing as hereinabove provided.

6. Applicant is authorized to file, after the effective date of this order and prior to the date service is first rendered to the public within the area described in paragraph 1.b of this order under the authority herein granted, in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96, and in a manner acceptable to the Commission, such revised tariff sheets, including tariff service area map, as are necessary to provide for the application of its tariff schedules to this area. Such revised tariff sheets shall become effective upon five days' notice to this Commission and to the public after filing as hereinabove provided.

7. Applicant shall determine depreciation expense for the year 1961 by multiplying depreciable utility plant by a rate of 2.3 percent. Further, applicant shall determine the appropriate depreciation reserve applicable to the individual plant accounts and review the accruals for each account as of January 1, 1962, using the straight-line remaining life method. Applicant shall review the accruals when major changes in utility plant composition occur and for each plant account at intervals of not more than five years. Results of these reviews, including the determination made as of January 1, 1962, shall be submitted to the Commission.

8. On or before February 23, 1962, applicant shall:

- a. Install adequate protective fencing around its Gordon Avenue pumping plant.

- b. Install and place in operation suitable pumping equipment to increase the capacity of the existing Gordon Avenue plant to at least 600 g.p.m. of water, and also the necessary facilities to provide an additional source of water supply for the Gordon Area of not less than 300 g.p.m., or the equivalent alternates thereof.

Within thirty days after completion thereof, applicant shall file with the Commission a written report indicating the date when each installation was made and the actual cost thereof.

9. On or before April 30, 1962, applicant shall install and place in operation:

- a. Adequate pumping equipment to increase the capacity of the existing Rexland Avenue plant after suitable redevelopment of the well at that location.
- b. Approximately 1,620 feet of pipe having an inside diameter of not less than eight inches, from the Rexland Avenue pumping plant to the intersection of Garber Way and Pacheco Road.
- c. Approximately 750 feet of pipe having an inside diameter of not less than four inches, on Bryant Street westerly from its intersection with Garber Way, to eliminate the three dead-end mains which serve premises fronting on Karen Place, Gary Place and Brenda Place.

Within thirty days after completion thereof, applicant shall file with the Commission a written report indicating the date when each installation was made and the actual cost thereof.

10. Prior to the date service is first rendered to the public within the area described in paragraph 1.b of this order and that portion of paragraph 1.a pertaining to the Gordon Area, under the rates and rules authorized herein, applicant shall apply to the public health authority having jurisdiction for a water supply permit for the proposed system, and within ten days thereafter shall

report to the Commission, in writing, that application has been made for such permit.

11. If the certificate granted in paragraph 1 of this order pertaining to the area described in sub-paragraph b thereof is exercised, applicant shall dedicate to public utility purposes the lots or land areas on which the wells, pumps, tanks, and related water supply facilities are located and any easements or permits where water mains are or will be located, otherwise than in streets or roads dedicated to public use, including the easement or right of way for the transmission line interconnecting the two distribution systems, and shall file with the Commission, not later than thirty days after the date service is first rendered to the public under the rates and rules authorized herein, one copy of each appropriate document showing such dedication, easement or permit.

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

The certificate granted in paragraph 1 of this order pertaining to the area described in sub-paragraph b thereof and the authority to render service therein under the rates and rules authorized herein will expire if not exercised within six months after the effective date of this order.

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

Dated at San Francisco, California, this 9th day of January, 1962

Charles E. Rogers
President
George T. Grover
Frederick B. Hobbs
Commissioners

APPENDIX A
Page 1 of 3

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The areas adjacent to U. S. Highway No. 99 and east of U. S. Highway No. 99, Alternate, and vicinity, located approximately five miles south of Bakersfield, Kern County.

RATES

Quantity Rates:

	<u>Per Meter</u> <u>Per Month</u>
First 1,000 cu.ft. or less	\$ 2.75
Next 3,000 cu.ft., per 100 cu.ft.17
Next 6,000 cu.ft., per 100 cu.ft.14
Over 10,000 cu.ft., per 100 cu.ft.10

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 2.75
For 3/4-inch meter	3.75
For 1-inch meter	5.75
For 1 1/2-inch meter	10.25
For 2-inch meter	15.50
For 3-inch meter	26.00
For 4-inch meter	42.00

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

APPENDIX A
Page 2 of 3

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

The areas adjacent to U. S. Highway No. 99 and east of U. S. Highway No. 99, Alternate, and vicinity, located approximately five miles south of Bakersfield, Kern County.

RATES

Per Service Connection
Per Month

For a single-family residential unit,
including premises not exceeding
10,000 sq.ft. in area \$ 4.15

a. For each additional residential
unit on the same premises and
served from the same service
connection 2.40

b. For each 100 sq.ft. of premises
in excess of 10,000 sq.ft.03

SPECIAL CONDITIONS

1. The above residential flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer for above classification, in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service.

APPENDIX A
Page 3 of 3

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The areas adjacent to U. S. Highway No. 99 and east of U. S. Highway No. 99, Alternate, and vicinity, located approximately five miles south of Bakersfield, Kern County.

RATE

	<u>Per Month</u>
For each hydrant	\$ 1.50

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 a result of its normal operation of the system.