

ORIGINALDecision No. 63411

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 ASHE WATER COMPANY, a California)
 corporation, for authority to)
 construct and operate a public)
 utilities water system in Kern)
 County, California, and for)
 authority to issue stock and other)
 securities.)

Application No. 43565
 (Amended)

Gibson, Dunn and Crutcher by Max Eddy Utt,
 for applicant.
W. B. Stradley and Sidney J. Webb, for the
 Commission staff.

O P I N I O N

Ashe Water Company (hereinafter referred to as Ashe) seeks a certificate of public convenience and necessity authorizing it to construct and operate a public utility water system in the area known as Stockdale in Kern County. Ashe also seeks authority to issue to the Stockdale Development Corporation 43,000 shares of its \$10 par value common stock for an aggregate amount of \$430,000 and authority to issue unsecured notes for \$470,000 at 6 percent interest to the Stockdale Development Corporation.

A duly noticed public hearing was held in this matter before Examiner Donald B. Jarvis at Bakersfield on February 15, 1962.

The Stockdale Development Corporation (a California corporation) is the developer of the Stockdale area. One-third of its capital stock is owned by the Kern County Land Company. The remaining two-thirds of the capital stock is owned by Del E. Webb Corporation (an Arizona corporation).

The Kern County Land Company had assets of \$111,632,201 as of December 31, 1960. It had a capital surplus of \$11,618,393 on that date, and a total net worth of \$88,925,454. Its net earnings for the year ending December 31, 1960 were \$15,733,452.

Del E. Webb Corporation (including subsidiaries) had assets of \$57,715,291 as of December 31, 1960. It had a total surplus of \$4,780,633 on that date, and its net worth was \$9,735,435.

The plans of Stockdale Development Corporation contemplate that the community of Stockdale will eventually encompass 5,600 acres and have a population of 55,000 people. Ashe seeks herein authority to serve 2,700 acres of the projected development. The proposed water system is planned around local supply wells of about 1,500 gallons per minute capacity which will be disbursed throughout the system. Ashe proposes to develop adequate well capacity to meet peak demand conditions with a capacity equivalent to the average demand to be supplied from natural gas engine-driven wells; the wells will be operated to develop a variable quantity against a constant discharge head and will be supplemented by electrically-driven single-speed well pumps with a shutoff head to permit constant operation if necessary without hazard to the system; the system will meet the standards provided for in General Order No. 103.

The record discloses that an adequate water supply is available for the system. At the hearing, Ashe presented a copy of a water supply permit issued to it by the State Department of Public Health authorizing Ashe to serve Kern City Tracts Nos. 2560 and 2548 (the first portions of the Stockdale development, which are expected to be ready for occupancy in March of 1962) from specified wells.

The evidence indicates that Stockdale Development Corporation owns 1,940 acres of the requested service area. The remaining portions of the requested 2,700 acre service area and the 5,600 acre eventual total development area are owned by Kern County Land Company and under option to Stockdale Development Corporation. Ashe has submitted a table of its proposed plant buildup over a period of ten years, which is as follows:^{1/}

ASHE WATER COMPANY
STOCKDALE COMMUNITY
KERN COUNTY, CALIFORNIA

PLANT BUILDUP

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
<u>CUSTOMERS</u>					
SINGLE FAMILY-LOT	100	505	570	590	760
INDUSTRIAL - AC	1	29	35	40	42
COMMERCIAL - AC		24	4	5	8
MULTI FAMILY - AC	1	12	6	10	22
<u>CUSTOMERS (CUM.)</u>					
SINGLE FAMILY-LOT	100	605	1175	1765	2525
INDUSTRIAL - AC	1	30	65	105	147
COMMERCIAL - AC		24	28	33	41
MULTI FAMILY - AC	1	13	19	29	51
<u>ADDED PLANT</u>					
<u>CAPITAL IMPROV.</u>					
PLANT	\$ 155,700	57,200	33,696	39,200	65,192
MAINS (OVERSIZE)	41,388	21,871	30,819	24,203	36,064
METERS	15,560	20,384	21,546	23,128	30,856
<u>SUBDIVISION SYSTEM</u>					
MAINS (LESS OVER.)	79,572	28,080	55,203	51,744	81,316
SUB GRID	81,040	126,175	101,710	116,783	132,078
NON DEP. INV.	20,000	—	—	—	—
<u>SUB TOTAL</u>	\$ 393,260	253,710	242,974	255,059	345,506
<u>CUM. PLANT</u>	393,260	646,970	889,944	1,145,003	1,490,509
<u>DEPR. PLANT</u>	373,260	626,970	869,944	1,125,003	1,470,509
DEPR. (1.91%)	½ yr. 1,773	11,975	16,616	21,487	28,087
<u>CUM. DEPR.</u>	1,773	13,748	30,364	51,851	79,938
<u>RATE BASE</u>					
CUM. PLANT-CUM. DEP.	391,487	633,222	859,580	1,093,152	1,410,571

(Continued)

^{1/} At the hearing, witnesses for Ashe conceded that the table was not prepared completely in accordance with the Uniform System of Accounts. There is also a question as to whether some items therein are allowable for rate making purposes. The table is set forth for illustrative purposes only. The Commission is not passing upon any of the items therein in this proceeding.

ASHE WATER COMPANY
STOCKDALE COMMUNITY
KERN COUNTY, CALIFORNIA

PLANT BUILDUP

(Continued)

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
<u>CUSTOMERS</u>					
SINGLE FAMILY-LOT	646	570	605	610	620
INDUSTRIAL - AC	30	30	20	20	20
COMMERCIAL - AC	4	5	6	7	8
MULTI FAMILY - AC	16	4	4	4	4
<u>CUSTOMERS (CUM.)</u>					
SINGLE FAMILY-LOT	3271	3841	4446	5056	5676
INDUSTRIAL - AC	177	207	227	247	267
COMMERCIAL - AC	45	50	56	63	71
MULTI FAMILY - AC	67	71	75	79	83
<u>ADDED PLANT</u>					
CAPITAL IMPROV.					
PLANT	\$ 42,000	43,400	39,936	41,184	—
MAINS (OVERSIZE)	34,140	21,390	3,469	13,794	10,355
METERS	32,382	24,738	27,104	28,182	29,512
SUBDIVISION SYSTEM					
MAINS (LESS OVER.)	52,800	37,200	9,664	17,556	16,573
SUB GRID	178,170	142,781	171,827	164,406	172,097
NON DEP. INV.	—	—	—	—	—
SUB TOTAL	\$ 339,492	269,509	252,000	265,122	228,537
CUM. PLANT	1,830,001	2,099,510	2,351,510	2,616,632	2,845,169
DEPR. PLANT	1,810,001	2,079,510	2,331,510	2,596,632	2,825,169
DEPR. (1.91%)	‡ yr. 34,571	39,719	44,532	49,596	53,961
CUM. DEPR.	114,509	154,228	198,760	248,356	302,317
RATE BASE					
CUM. PLANT-CUM. DEP.	1,715,492	1,945,282	2,152,750	2,368,276	2,542,852

The utility plant Ashe proposes to construct in the service area in the early years is intended to run at a rate of about \$400,000 for 1961 and thereafter at a rate of from \$240,000 to \$350,000 annually.^{2/} The accumulative plant buildup in the Stockdale Community for a ten-year developmental period is estimated to cost \$2,845,169. Of this, to develop the initial service area herein requested for certification, funds will be required for plant buildup, maintenance, and operation, prior to 1964, in an amount of about \$900,000, which Ashe expects to provide by the issuance of common stock in the amount of \$430,000 and by the issuance of unsecured notes with interest at 6% maturing September 1, 1964 issued to its shareholder in the amount of \$470,000. Stockdale Development Corporation has offered to stand committed to purchase and acquire the same from time to time.

Ashe proposes to use consumers' advances in the course of its operations, and it expects to maintain at all times an outstanding equity of at least 40% of the net utility plant after depreciation.

The Commission staff made a field investigation in connection with the application. A report prepared by the staff, which was received in evidence, substantially verifies the presentation made by Ashe.

The record discloses that the area here under consideration is owned by, or under contract to, one owner; that no public utility water system presently is authorized to serve the area; that there are two small mutual water companies operating somewhere near the area; that the Eakersfield District of California Water Service Company furnishes public utility water service within one-quarter of a mile from the requested service area; that copies of the application were served on the two mutual water companies and California

^{2/} At the hearing a witness for Ashe testified that approximately \$311,000 was spent in 1961. An exhibit showed expenditures of \$287,861 for 1961. The witness stated that the difference between the estimate and actual construction expenditures for 1961 would be made up by additional expenditures in 1962.

Water Service Company; and that none of these companies appeared at the hearing or objected to the granting of the application. The Commission finds that the public interest requires that the application should be granted as hereinafter set forth. However, Ashe is placed on notice that if it develops and installs a water system which exceeds the requirements of the customers in the area actually being served, it cannot expect the Commission to authorize rates based upon the costs and operations of an overdeveloped system. (Northern Counties Utility Co. 56 Cal. P.U.C. 306, 311; Re Kennett Water Company, 20 C.R.C. 464).

The record indicates that Ashe has procured a franchise from Kern County to use the public roads or highways in the requested area. The Commission finds that public convenience and necessity require that Ashe be authorized to exercise the franchise.

Ashe proposes to furnish water on a metered basis and seeks to apply rates comparable to those of similar utilities in the Bakersfield area. The Commission finds that the proposed rates are reasonable and should be authorized.

Ashe's Articles of Incorporation authorize it to issue 200,000 shares of \$10 par value common stock, and 10,000 shares of \$100 par value preferred stock. None of the stock has been issued.

As indicated Ashe seeks herein authority to issue to the Stockdale Development Corporation 43,000 shares of its \$10 par value common stock for an aggregate amount of \$430,000 and unsecured notes for \$470,000 at 6 percent interest which will mature September 1, 1964. The money from the notes and sale of the stock will be used to pay for utility plant and provide working capital, and, in the early years of the system, some of the money from the notes will be used to cover operating expenses in excess of operating revenues. Stockdale Development Corporation has offered to stand committed to purchase the stock and notes from time to time, until they are fully issued.

The record indicates that Ashe was established to provide water service for the proposed Stockdale Community, a pending real estate development. Ashe seeks authority herein to issue a substantial number of shares to Stockdale Development Corporation, the real estate developer. At the hearing, witnesses for Stockdale Development Corporation indicated that it had no present intention to resell any stock which might be issued to it. However, there is always present the possibility that Stockdale Development Corporation may undertake to sell some of these shares to the general public. In this situation we have a water company whose ultimate financial success is dependent upon a real estate development of great magnitude. It is conceded that it will initially operate at a loss, and investment in Ashe at this time may involve considerable risk. In the circumstances, the Commission will require that the shares herein authorized be escrowed and not transferred by the initial shareholder without further order of the Commission. This will enable the Commission to provide for adequate disclosure in the event the shares are to be resold to the general public. The Commission finds that Ashe should be authorized to issue the requested stock and notes as hereinafter provided.

In addition to the findings heretofore made, the Commission finds and concludes that:

1. Public convenience and necessity require that the application be granted as set forth in the ensuing order.
2. Applicant possesses the financial resources to construct and operate the proposed water system.

3. The money, property or labor to be procured or paid for by the issuance of the stock and notes herein authorized is reasonably required for the purposes specified, and such purposes, except as otherwise authorized in the case of the notes, are not in whole or in part reasonably chargeable to operating expenses or to income. The authorization herein granted 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 any future rate base for determination of just and reasonable rates.

4. The rates set forth in Appendix A attached hereto are fair and reasonable for the service to be rendered.

5. Ashe's water supply and distribution facilities will provide reasonable service for the proposed certificated area and meet the minimum requirements of General Order No. 103.

The certificates herein granted shall be subject to the following provision of law:

That the Commission shall have no power to authorize the capitalization of the franchise herein or these certificates of public convenience and necessity, or the right to own, operate, or enjoy such franchise or certificates 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, certificates of public convenience and necessity or right.

O R D E R

An application having been filed and the Commission having considered all the allegations thereof and the record in this matter,

IT IS ORDERED that:

1. A certificate of public convenience and necessity is hereby granted to Ashe Water Company, a corporation, authorizing it to construct and operate a public utility water system for the distribution and sale of water within the area more particularly described in Exhibit C-1 attached to the amendment to Application No. 43565 and by this reference made a part hereof.

2. A certificate of public convenience and necessity is hereby granted to Ashe Water Company to exercise the rights and privileges granted by the County of Kern by Ordinance No. F-56 adopted May 31, 1961, within the area herein certificated and in areas hereafter to be served through extensions of its existing system made in the ordinary course of business as contemplated by Section 1001 of the Public Utilities Code.

3. Applicant is authorized to file, after the effective date of this order, the rates set forth in Appendix A attached hereto, to be effective on or before the date service is first furnished to the public under the authority herein granted, together with rules and tariff service area map acceptable to this Commission and in accordance with the requirements of General Order No. 96-A. 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.

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

5. 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 800 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.

6. Applicant shall determine the accruals for depreciation by dividing the original cost of 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 furnished 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.

7. Ashe Water Company, for the purposes herein set forth, may issue to Stockdale Development Corporation 43,000 shares of its \$10 par value common stock for an aggregate amount of \$430,000; provided, however, that these authorized shares shall be sold or issued only in accordance with the following conditions: (a) Ashe Water Company shall select an escrow holder which shall be approved in writing by this Commission; (b) all stock certificates issued shall forthwith be deposited with the escrow holder and shall not be transferred until further order of this Commission; (c) upon the

receipt of any shares, the escrow holder shall furnish a written receipt to the shareholder and file with this Commission a duplicate copy of said receipt; (d) no owner or person entitled to any of the shares herein authorized shall consummate a sale or transfer of said shares, or any interest therein, without first having secured the consent of this Commission so to do.

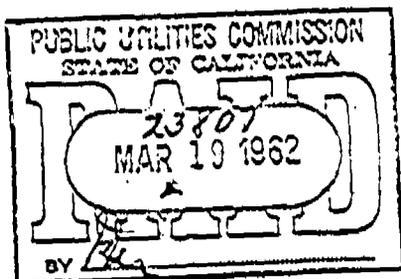
8. Ashe Water Company, for the purposes herein set forth, may issue to Stockdale Development Corporation its unsecured 6 percent note or notes, in the form set forth in Exhibit 3, in an aggregate amount of not more than \$470,000, said notes to have a maturity date of September 1, 1964.

9. Ashe Water Company shall file with this Commission a report or reports as required by General Order No. 24-A, which order insofar as applicable, is made a part of this order.

10. The certificates 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.

11. The authority herein granted to issue a note or notes will become effective when Ashe Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$470. In all other respects the effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 13th day of MARCH, 1962.



[Signature] President
[Signature]
[Signature]
[Signature] Commissioners

APPENDIX A
Page 1 of 3

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Stockdale Community, and vicinity, located immediately southwest of the City of Bakersfield, Kern County.

RATES

Per Meter
Per Month

Quantity Rates:

First 1,000 cu.ft. or less	\$ 3.50
Next 1,000 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.175

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 3.50
For 3/4-inch meter	4.50
For 1-inch meter	7.50
For 1 1/2-inch meter	10.00
For 2-inch meter	15.00
For 3-inch meter	28.00
For 4-inch meter	45.00
For 6-inch meter	100.00
For 8-inch meter	150.00
For 10-inch meter	200.00

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. 4

PRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

Applicable to all water service furnished for privately owned fire protection systems.

TERRITORY

Stockdale Community, and vicinity, located immediately southwest of the City of Bakersfield, Kern County.

RATES

	<u>Per Month</u>
For each 2-inch or smaller service connection	\$ 4.00
For each 3-inch service connection	6.00
For each 4-inch service connection	8.00
For each 5-inch service connection	12.00
For each 8-inch service connection	16.00
For each 10-inch service connection	20.00

SPECIAL CONDITIONS

1. The fire protection service pipe will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.

2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.

3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water.

(Continued)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE
(Continued)

SPECIAL CONDITIONS (Contd.)

4. For water delivered for other than fire protection purposes, charges will be made therefor under Schedule No. 1, General Metered Service.
5. 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.