

ORIGINAL

63502

Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CASTLE BUTTE WATER CO.,
 a corporation, for authority to
 construct a water system, to operate
 such system in public utility water
 service within certain areas in Kern
 County, California, to exercise any
 county franchise that may be required
 in connection therewith, and to issue
 stock. (Section 50(a) of the Public
 Utilities Act and Related Provisions).

Application No. 43429
 (Filed May 22, 1961
 Amendment filed
 August 16, 1961)

Sanford A. Waugh, for applicant.

Robert J. Aikins, for Antelope Valley-East Kern
 Water Agency, interested party.

Richard R. Entwistle and Chester O. Newman, for
 the Commission staff.

O P I N I O N

This application was heard before Examiner E. Ronald Foster at Lancaster on January 3, 1962, on which date it was submitted. Copies of the application and of the amendment thereto and the notice of hearing were served in accordance with the Commission's procedural rules. There are no protests.

Applicant's Requests

Applicant, Castle Butte Water Co., a corporation, requests the Commission: (1) to grant it a certificate of public convenience and necessity to construct and operate a public utility water system in an area north of the community of North Edwards in Kern County; (2) to establish a schedule of meter rates for the water service to be rendered; (3) to authorize it to exercise any county franchise that may be required in connection therewith; and (4) to authorize it to issue 1,000 shares of its capital stock.

Proposed Service Area

The total area embraced by the application consists of 780 acres lying on both sides of Castle Butte Road about $2\frac{1}{2}$ miles north of U.S. Highway 466 and located approximately 17 miles east of Mojave in Kern County.

Applicant's proposed initial development will be in a 300-acre parcel designated as Tract No. 2133 R.S., consisting of 120 lots, each containing about $2\frac{1}{2}$ acres, described as the $W\frac{1}{2}$ of Section 17, except the $S\frac{1}{2}$ of the $SW\frac{1}{2}$ of the $SW\frac{1}{2}$ of said section, T11N, R9W, S.B.B.&M.

Applicant proposes to construct subsequently such water works and distribution facilities as may be necessary to provide public utility water service within additional areas adjoining Tract No. 2133 and described as follows: a 320-acre parcel comprising the $E\frac{1}{2}$ of Section 17 and a 160-acre parcel consisting of the $NE\frac{1}{2}$ of Section 18, T11N, R9W, S.B.B.&M.

Applicant was incorporated February 15, 1961. The organizers thereof, namely, Messrs. Juan Arrache, Cecil R. Fairchild and John R. Lion, plan to subdivide and sell the aforementioned real property either themselves or through organizations wholly controlled by them; these persons own or control said land in its entirety.

It is of record that Tract No. 2133 is the same area as one of those for which a certificate was requested by Antelope Valley Water Company in Application No. 40506 but which was denied by Decision No. 58368, dated May 5, 1959. The following is an excerpt from said decision:

"We find that the evidence is not convincing that further expansion is economically feasible or that the utility can meet the many obligations incident to further expansion; therefore, in the broad public interest, this application will be denied."

As a new corporation, applicant herein proposes to provide the same water service within said tract and the adjoining areas, with Mr. William N. Taylor, president of Antelope Valley Water Co., in charge of maintenance and operations.

Antelope Valley Water Co. and North Edwards Water Co., both public utilities, and Edgemont Acres Mutual Water Co., furnish water service in areas located southeast of, and about two miles distant from, the area for which a certificate is requested herein.

Description of Water System

The existing facilities consist of a 14-inch cased well about 300 feet deep, a deep-well turbine pump (without a motor) and a 5,000-gallon hydropneumatic tank, all located on a parcel of land, 100 feet square, in the southeast corner of Tract No. 2133. During a test conducted in June 1958 (Page 1 of Exhibit "F"), the well produced 1880 gpm of water with a drawdown of about 25 feet. Applicant proposes to equip the pump with a motor so that the unit will deliver about 1100 gpm.

Exhibit No. 1 shows the distribution system proposed to be installed in Tract No. 2133 will consist of about 33,000 feet of 4-, 6- and 8-inch Class 150 asbestos-cement pipe. For 120 lots, this is equivalent to an average of 275 feet of distribution mains per customer. The piping will be laid in private streets within and bordering the tract; hence, no county franchise will be required, according to applicant. There will be 14 wharf-type hydrants located on the system. All services will be metered as soon as the houses are occupied.

The amendment to the application states that applicant will acquire a second well site, at least 100 feet square, to be located east of the existing well, in the southwest corner of the

east half of Section 17. Also, when as many as 20 services are receiving water from the system, a water storage tank of not less than 63,000 gallons capacity will be constructed in the northeast corner of Section 18, on a butte some 300 feet above the average service area level. It is claimed that the storage tank and the second well, when placed in operation in conjunction with the first well, would provide for continued and uninterrupted service by at least one of such means.

Water Quality

Exhibit "E" is a laboratory report dated December 18, 1958, covering an analysis of a sample of the water from the existing well. The report shows total dissolved solids of 558 ppm, and total hardness of 82 ppm, with iron content, color, odor and turbidity negligible. However, the fluoride ion concentration was determined to be 1.4 ppm, which meets the standards of the United States Public Health Service but exceeds the maximum safe fluoride ion concentration recommended by the State Department of Public Health of 1.0 ppm for a mean annual temperature of 60 degrees F.

Exhibit "G" is a copy of a water supply permit granted to applicant on August 9, 1961, by the health officer of Kern County on behalf of the State Board of Public Health, with respect to supplying water for domestic use from applicant's existing well. The record does not reveal whether the health officials were aware of the above-mentioned laboratory report when the permit was issued. The permit was granted subject to certain provisions, two of which are:

- "(1) Water for domestic purposes shall, under all circumstances and conditions, be pure, wholesome, and potable, and shall not endanger the lives or health of human beings.

"(5) Necessary treatment works or improvements in operation, maintenance or construction, shall be provided when needed or when required by the State Department of Public Health."

Applicant's witnesses had no knowledge of the efficacy or cost of treatment of the water to remove or reduce the fluoride content. They expressed the hope that water from the second well could be obtained with less concentration of fluorides so that, when mixed with that from the existing well, the combined product would come within acceptable public health standards.

Rates

Applicant proposes to render only metered service and at the following rates, which are the same as those in effect for the Inyo Kern Tariff Area of Antelope Valley Water Co.:

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 600 cu.ft. or less	\$ 3.00
Next 1,000 cu.ft., per 100 cu.ft.30
Next 1,400 cu.ft., per 100 cu.ft.25
Next 2,000 cu.ft., per 100 cu.ft.20
Over 5,000 cu.ft., per 100 cu.ft.15
 Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 3.00
For 3/4-inch meter	4.00
For 1-inch meter	6.00
For 1 1/2-inch meter	8.50
For 2-inch meter	12.00

Applicant's Showing

The estimated cost of the facilities to serve the 300-acre Tract No. 2133 is shown in the application as follows:

Water mains	\$55,500
Well site	400
Pressure facilities	2,750
Deep well pump	3,100
Well	<u>3,110</u>
Total Original Cost	\$64,860

In the foregoing tabulation, the \$55,500 for water mains results from an understanding arrived at between applicant and William N. Taylor, president of Antelope Valley Water Co.; it is based on the amount for which his construction organization would install said mains. The \$3,100 for the pump does not include a motor for it. The tabulation does not include any amounts for the second well site, well and pumping unit, nor for the 63,000-gallon storage tank, meters for customers' services and organization costs. Based on 120 lots in the tract, \$64,860 would represent an average investment of \$540 per customer, which is abnormally high. After including the additional facilities recommended and considered necessary for rendering adequate and dependable service, which the record shows would probably cost between \$20,000 and \$30,000, the average installed cost per customer would be considerably higher than that stated above.

The application shows the estimated annual cost of operating the proposed water system as follows:

Cost of Power	\$1,000
Maintenance expense	<u>300</u>
Total	\$1,300

Applicant's witness was uncertain as to the number of customers on the basis of which the above power cost was estimated but he testified that the power cost would be only \$400 to \$450 for the 12 or 15 customers expected to be served in the first year of operation. It should be noted that applicant's estimate of expenses makes no provision for such items as general supervision, customer accounting and collecting, taxes, or depreciation, nor did applicant suggest any amounts to cover such items.

Applicant introduced no estimate of revenues to be expected, either in the early years of the development or when the

initial tract may be more fully developed. Applicant's witnesses anticipate a growth of about 12 customers per year at first, with some acceleration in later years. One witness testified that the operation would be self-supporting with 25 customers but offered no concrete figures to support this view. Applicant anticipates sales of water for only average household use, including some lawn and trees, but without extensive irrigation on the 2½-acre lots.

Witness William N. Taylor testified that applicant had entered into preliminary agreements with him to operate and maintain the system in conjunction with his activities as owner and operator of Antelope Valley Water Co. Mr. Taylor's base of operations is in Lancaster which is over 30 miles by road from applicant's proposed service area.

Financing

Applicant is a newly formed corporation with neither assets nor liabilities, nor any financial experience, nor any outstanding stock. Its Articles of Incorporation show that it is authorized to issue one class of shares, the total number of which is 2,500, without par value. To finance the acquisition and construction of the water system, at the estimated cost of \$64,860 shown in the application, applicant proposes to issue 500 shares of its non par value capital stock to Juan E. Arrache, its president, and 500 shares to Cecil R. Fairchild, its vice president. Attached to the application as Exhibit "B" is a financial statement for Juan E. and Carmel Arrache showing a net worth of \$557,452 as of December 31, 1960; no such statement was presented for either of the other two organizers and officers of the corporation. Mr. Arrache was not present at the hearing in this matter.

When questioned about the financing of the additional facilities, John R. Lion, secretary-treasurer of the applicant corporation, first stated that funds would be obtained from the organizers on short-term or long-term loans at interest of about six percent. When it was pointed out that the utility, if certificated, would be initially operating at a loss and unable to pay interest, this witness stated that it could probably be arranged to have the stock issue cover the investment in all the facilities to be installed. He also testified that applicant's stockholders would be willing to absorb the operating losses in the early years of operation, with the expectation that they would be reimbursed from sales of lots.

Staff Participation

In addition to cross-examining the applicant's witnesses, the Commission staff presented in evidence Exhibit No. 2 consisting of a memorandum based on a field investigation made by a staff engineer. He testified that, while the production capacity of the existing well is sufficient to meet the demands of the initial 120-parcel subdivision, standby facilities should be installed prior to initial service to the public in order to provide for continuity of supply. He recommended that such facilities should consist of a storage tank of at least 63,000 gallons capacity as standby in case of power outages and a second well equipped with a pumping unit capable of delivering at least 600 gpm as standby in case of a shutdown at the first well for any extensive period of time.

This engineer also recommended that certain deficiencies in the distribution system as now planned should be corrected before it is installed, namely: (1) the main extending north from the existing well, along the east side of Tract No. 2133, now shown as

four-inch, should be six-inch or larger in order adequately to supply the northern portion of the system, and (2) additional valves should be installed on the mains running north and south, at intervals of about 1,300 feet.

The staff engineer estimated that for homes in this locality the water consumption, on an annual basis, would average about 2,000 cubic feet per month per customer, for which the charge would be \$7.00 at applicant's proposed rates. The total revenues generated at such rates will be insufficient to cover the costs of utility operation during the development period and applicant might operate at a loss for a number of years since development in the vicinity of this area indicates that the growth rate will be extremely slow, according to this witness. He recommended that the certificate, if granted, should be restricted to the first unit of 300 acres.

Interest of Water Agency

The secretary-treasurer of the Antelope Valley-East Kern Water Agency stated, for the information of the Commission, that the agency had been created in 1959 for the prime purpose of bringing supplemental water to the area which includes that proposed to be served by applicant. He stated that the agency anticipates signing this year a contract with the State for the delivery of such water from the California Aqueduct Project to take care of growth such as that envisioned by applicant. However, the water will not be available until about 1972.

Findings and Conclusions

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

1. Applicant has failed to establish that public convenience and necessity require the proposed service of water to the areas

requested to be certificated to it or even to the portion thereof designated as Tract No. 2133. Applicant's desire to enter the water utility business so as to promote the sale of lots in said areas is insufficient as evidence of public convenience and necessity.

2. Applicant's basic showing of the investment in facilities and the probable results of operation fails to show that the proposed service is economically feasible. With the installation of other facilities necessary to render adequate and reliable service, in addition to those originally proposed by applicant, the resulting operations will be still less feasible and will not be in the public interest.

3. Applicant's plans for furnishing water of a quality consonant with acceptable public health standards are too indefinite to warrant the issuance of the requested certificate on the present record.

4. Applicant's proposed method for financing the acquisition of existing facilities and the construction of additional installations lacks the finality necessary for authorization by the Commission.

5. The application herein should be denied.

O R D E R

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

IT IS ORDERED that Application No. 43429 be, and it hereby is, denied.

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

Dated at San Francisco, California, this 3rd day of APRIL, 1962.

Ernest W. Bore
President

E. J. [unclear]

George H. [unclear]

Fredrick B. [unclear]

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.