

ORIGINAL

64047

Decision No. \_\_\_\_\_

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of SUBURBAN WATER SYSTEMS & VALLECITO WATER COMPANY for exchange of portions of service area and for certificates of public convenience and necessity.

) Application No. 43578  
) (Filed July 5, 1961)  
) Amended December 28,  
) 1961 and February 2, 1962.

In the Matter of the Application of SAN GABRIEL VALLEY WATER COMPANY for a certificate of Public Convenience and Necessity to furnish Water Service in Territory near the City of La Puente and City of Industry in Los Angeles County, California, and for Authority to Establish Rates for Service therein.

) Application No. 44149  
) (Filed January 29, 1962)

William M. Lassleben, Jr., for Vallecito Water Company; Arthur D. Guy, Jr., and Carr H. Deitz, for Suburban Water Systems; John E. Skelton and Ralph B. Hubbard for San Gabriel Valley Water Company.  
Raymond Martin; Al Preissler; R. Walter Cammack; Robert Kopecky, for Hacienda Hills Baptist Church; protestants.  
F. E. Hostetler, for self, and for Marvin J. Hostetler and Herbert A. Hostetler; interested parties.  
Richard R. Entwistle and Jerry J. Levander, for the Commission staff.

O P I N I O N

Application No. 43578 is a joint application whereby (1) Vallecito Water Company (Vallecito) seeks authority to extend service to a tract of land south of and

contiguous to its certificated area including Tract No. 26584 (Exhibit No. 13, Area E); (2) Vallecito seeks authority to serve a portion of Suburban Water Systems' (Suburban) service area, and Suburban seeks authority to relinquish said area to Vallecito (Exhibit No. 13, Area A); (3) Vallecito seeks authority to relinquish a portion of its service area to Suburban (Exhibit No. 13, Area B), and Suburban seeks authority to serve said area; (4) Suburban seeks authority to serve an additional area east of Vallecito's service area (Exhibit No. 13, Area C); (5) Suburban seeks authority to serve a contiguous area including a portion of Tract No. 25169 and all of Tract No. 26678 (Exhibit No. 13, Area D); (6) Suburban seeks authority to establish rates in its new service area; and (7) Suburban originally sought authority to extend service into these areas on the basis that refunds of advances for on-site plant would be made in accordance with its filed main extension rule. Subsequently, by the amendment filed February 2, 1962, Suburban requested authority to deviate from its main extension rule by refunding advances according to the proportionate cost method with common stock instead of cash. The record shows, however, that Suburban is willing to make the extensions involved on either of the above bases.

By Decision No. 63116, as amended by Decision No. 63324, both on Application No. 43578 herein, Suburban was given authority to extend service to Area D, and Vallecito was authorized to serve Area E.

By Application No. 44149, filed on January 29, 1962, San Gabriel Valley Water Company (San Gabriel) seeks (1) authority to serve all of the territories referred to herein except the two territories granted, respectively, to Suburban and Vallecito (Areas D and E, Exhibit No. 13); and (2) to establish rates therefor.

Public hearings on Application No. 43578 were held in Los Angeles before Commissioner C. Lyn Fox and Examiner Kent C. Rogers on December 7, 8 and 28, 1961. On the latter date San Gabriel appeared and requested a continuance to give it an opportunity to file an application for a certificate. This continuance

was granted, and on January 29, 1962, San Gabriel filed Application No. 44149, supra, which was consolidated for hearing with Application No. 43578, and additional hearings on the consolidated applications were held in Los Angeles before Commissioner C. Lyn Fox and Examiner Kent C. Rogers on February 8 and 9 and March 19 and 20, 1962. At the conclusion of the hearings the matters were submitted subject to the filing of concurrent briefs and late-filed exhibits Nos. 26 and 27 on or before March 30, 1962. These briefs and exhibits have been filed and the matters are ready for decision.

Notices of hearings were published and served as required by this Commission.

San Gabriel now serves domestic water in an area north and west of Suburban's existing service area and east of Vallecito's service area. This is its El Monte Division which it proposes to enlarge to serve the area involved herein (Areas A, B and C of Exhibit No. 13). It proposes rates which, except for minimum charges, are lower than the rates proposed by Vallecito or Suburban (Exhibit No. 15), but would require the subdivider to advance \$778,585 for both on-site and off-site installations. This estimate is based upon a somewhat greater development of the area but is substantially more than the \$475,900 Suburban proposes to assess the subdivider for installing facilities in the proposed service area. We can see no material difference in the service proposed by Suburban, Vallecito, and San Gabriel, and as Suburban and Vallecito can serve the area with plant costing less than that required by San Gabriel, and further, since the service areas of Suburban and Vallecito are each contiguous to the areas proposed to be served, we hold that Vallecito and Suburban should be given the preference. The application of San Gabriel will be denied.

Area A, Exhibit No. 13  
Transfer from Suburban to Vallecito

By Decision No. 49703, dated February 23, 1954, in Application No. 34947, Suburban was authorized to serve an area including Lots Nos. 17 through 32 of Warwickshire Heights Tract. These lots, containing approximately 75 acres, are on either side of Tetley Street (Avenue) and are immediately west of Hacienda Boulevard. This area is at present devoted to citrus and agricultural uses with the exception that there are four domestic consumers therein. By agreement, Vallecito has been serving this area at its existing rates with water furnished from its Reservoir No. 3 south and west thereof (Exhibit No. 1). There are plans to divide this area into approximately 255 residential lots. Vallecito now has a master meter and main on the west end of the tract at Tetley Street, and has several mains in the vicinity, including a 10-inch main on Hacienda Boulevard and La Subida Drive, the first street south of Tetley Street. Vallecito will assess its authorized rates in the Tetley Street area. Notice of the first day of hearing was given to the subscribers in the area, and none appeared. The record herein shows that Vallecito has been serving this area and that no customers will be adversely affected by the change in the responsibility. The application for authority to transfer the service area from Suburban to Vallecito does not appear adverse to the public interest and will be granted.

Area B, Exhibit No. 13  
Transfer from Vallecito to Suburban

This area, which contains approximately 160 acres, is bounded on the north by Halliburton Road at which the elevation is

approximately 530 feet, on the east and south by the 600-foot contour line, and on the west by Hacienda Boulevard, Anellen Street and Stimson Avenue. It is, in turn, divided into three parcels, namely, Lot No. 13 of Tract No. 3193 containing 54 acres, which is west of Stimson Avenue and north of Anellen Street; Tract No. 3452 containing 56 acres, which is east of Stimson Avenue and north of the continuance of Anellen Street; and approximately 50 acres which comprises the remaining portion of the area and is east of Stimson Avenue, south of the continuance of Anellen Street and west of the 600-foot contour line. In this 160-acre area there are only 24 water users, all of whom are north of Anellen Street. Of these, 15 are metered domestic consumers and nine are irrigation customers. The irrigation customers will not be affected inasmuch as Suburban has no irrigation rates and Vallecito will continue to serve the irrigation customers until such use is discontinued. Of the 15 domestic customers, three appeared at the hearing as protestants and one submitted a petition opposing the transfer. The Suburban rates, both present and proposed, are lower than those of Vallecito. There is nothing in the record to show the quality of the water involved. The record here shows that Vallecito is extensively developing the remaining portion of its service area and that its financing and its existing transmission facilities will not permit it to adequately serve the 160 acres here involved. The companies have executed a transfer agreement (Exhibit A on Application No. 43578) whereby, among other things, Suburban will serve domestic consumers in the area and Vallecito will continue to serve the irrigation consumers. The Commission finds that the request for authority

to transfer the 160-acre section, here referred to, from Vallecito to Suburban is not adverse to the public interest, and it will be granted. The proposed agreement will be authorized.

Areas B and C  
Requests of Suburban

Suburban's San Jose Hills System is in the vicinity of La Puente. Its South Puente System is a separate portion (Exhibit No. 5) containing approximately 2,200 service connections. By Application No. 43578 herein, it seeks authority to extend service to approximately 740 acres including the 160 acres of Vallecito territory hereinbefore referred to (Exhibit No. 4). This total area is bounded on the east by the Rowland County Water District and on the south by the La Habra Heights Mutual Water Company, each of which has indicated that it does not desire to serve the area. Suburban's South Puente System service area constitutes the northern boundary and Vallecito's service area the western boundary. Approximately 85 percent of the territory involved (all but the school sites, shopping center and golf course) is owned by Sunset International Petroleum Corporation (Sunset), and is being, or will be, developed as the Sunset Hills Project thereof. There will be a shopping center in the territory. This shopping center, which will contain approximately 25 acres, will be in the northwest corner at Hacienda Boulevard and Halliburton Road. Also, there will be three schools, and a golf course which will contain approximately 140 acres, and an estimated 1,224 homes in three tracts comprising 622 acres of land. These tracts will be developed in an orderly fashion starting contiguously to the southern boundary of the Suburban service area. The initial

tract will be Tract No. 26505 containing 22 acres split into 72 lots. Subsequently Tract No. 26147, containing 300 acres split into 950 lots to be developed in 100-lot increments, and Tract No. 26860, containing approximately 202 lots on 160 acres of land, will be developed. This latter tract will include the golf course, which will comprise an additional 140 acres.

#### The Water Supply

Suburban has numerous wells, pumping plants and storage facilities in its San Jose Hills System. It has a 500,000-gallon reservoir at an elevation of 530 feet along Halliburton Road approximately 2,400 feet east of Stimson Avenue (Plant No. 132), the westerly boundary of the area. Prior to the request for service by Sunset, applicant had planned to add a 2.5-million-gallon reservoir at this point. It now plans a 3.5-million-gallon reservoir here giving a total of 4 million gallons of storage thereat. Its engineer stated that this additional one million gallons of storage together with two other reservoirs, referred to herein, will be ample to supply the area. In addition to this storage of 4 million gallons, applicant plans to install a 1.5-million-gallon reservoir at an elevation of 740 feet and a .5-million-gallon reservoir at an elevation of 1,090 feet (See Exhibit No. 13 for locations). At the 530-foot-elevation reservoir applicant will, when needed, install a 5,000-gallon-per minute pumping plant. This pumping plant is not considered by applicant as part of the facilities strictly necessary for the Sunset area. At the 1.5-million-gallon reservoir there will be initially three boosters, namely, a 250-gallon-per-minute booster on a hydropneumatic system for the domestic consumers and two 250-gallon-per-minute boosters to deliver

water to the .5-million-gallon reservoir. There will also be an in-line booster at the 200-foot level to raise pressure for 30 to 40 customers at higher elevation. The golf course will secure water from a 16-inch main at the 910-foot level, and will furnish its own boosters. Suburban estimates that in order to fully develop the area it will be required to install 1,240 metered services, averaging 3/4-inch, 94 fire hydrants, 5,030 feet of 16-inch mains, 2,050 feet of 12-inch mains, 29,030 feet of 8-inch mains, 32,150 feet of 6-inch mains, and 8,340 feet of 4-inch mains. Applicant's witness testified that there is ample water to furnish service to the area at present, but that additional wells are planned to provide an additional supply of 800 gallons per minute. The funds for this water supply are to be raised from the sale of bonds.

#### Rates

Suburban has pending an application for an increase in rates (Application No. 43241) which proposes two zones with a higher rate for the upper elevations to compensate for increased pumping costs. The record herein shows that the proposed shopping center between LaMonde Avenue and Halliburton Road east of Hacienda Boulevard would be served by the reservoir which is at approximately a 530-foot elevation and that the area slopes upward south and east, with the greater portion of the area over 700 feet in elevation.



At the Zone B, upper elevation rates, Suburban estimates that it would realize gross revenues from this area (Areas B and C, Exhibit No. 13) of \$127,000 per year at full development, from which it would have net revenues of \$27,180 per year for a rate of return of 4.2 percent. If Zone A, lower elevation rates, are applied it would have gross revenues of \$106,870 per year at full development from which it would have net revenues of \$16,530 and a rate of return of 2.51 percent. This is speculative, as it is not known whether the zones as proposed by Suburban will be authorized nor what the Commission's conclusions will be with respect to the increases sought by Application No. 43241. Suburban will be required to assess and collect whatever rates are allowed by its presently filed tariffs but may apply, subsequently, whatever changed rates, if any, are authorized by appropriate tariff filings when the above application is determined.

Financing

Suburban estimates that the following will be required to enable it to render service to the Sunset Hills Project:

Off-site plant:

Additional storage capacity at the plant No. 132 (Halliburton Road) reservoirs to increase the capacity from 3-million gallons to 4-million gallons (total cost \$110,000)	\$11,000
Transmission line from this reservoir to the Sunset Hills Project	<u>5,000</u>
Total cost of off-site plant	\$16,000

On-site plant:

Two reservoir sites - estimated cost	\$ 12,000
Booster plants	30,000
Storage reservoirs	96,000
Mains, services and hydrants	440,900
Meters	<u>44,000</u>

Total cost on-site plant \$622,900

Total estimated cost of utility plant to serve the area \$638,900

Of this plant, Suburban requests that the subdivider be permitted to advance the cost of:

Off-site transmission line	\$ 5,000
Booster plants	30,000
Mains, services and hydrants	<u>440,900</u>

Total estimated facilities to be advanced by the subdivider \$475,900

As heretofore stated, Sunset will develop tracts, or portions of tracts, in steps, and will request authority to enter into separate agreements for each step of development. At present it is requesting authority to enter into a proportionate cost agreement whereby, in lieu of cash, Suburban will issue to Sunset presently authorized \$10 par value common stock at \$60 per share on a dollar-for-dollar basis, as refunds become due in lieu of cash refunds. Sunset is willing to retain this stock if issued to it.

The Contract with Sunset

Suburban requests authority to execute modified forms of refund agreements with Sunset in accordance with the form set forth as Exhibit A on the Second Amendment to Application No. 43578. Initially, Suburban seeks authority to enter into such agreement for plant facilities valued at \$150,000 which will enable applicant

to furnish water to Tract No. 26505. These facilities are a portion of the plant hereinbefore referred to which will cost the subdivider a total of approximately \$475,900. The plan evolved by the developer and Suburban for supplying water to the Sunset project could have an unjustified, adverse effect on the utility's ratepayers. However, a solution to the refund problem is possible without these adverse effects. The developers could advance sufficient funds to the utility to enable it to install the off-site plant for the new areas, such advance to be refunded with appropriate securities in lieu of cash, on a proportionate cost basis. In addition, the developers could advance the funds for on-site facilities as required by the utility's main extension rule, and the utility would be authorized to make such refunds as they become due with appropriate securities.

This solution to the problem would:

1. Avoid the issuance of stock, and inclusion of amounts in rate base, related to off-site plant in excess of the proportionate utilization of such plant.
2. Avoid the issuance of stock, and inclusion of amounts in rate base, related to on-site facilities in excess of the amount of advance which would be refunded under the utility's normal application of its main extension rule.
3. Relieve the utility of the normal obligation to raise funds for off-site plant and refunds of advances.

#### Resolutions re Transfer of Plant

Both Vallecito and Suburban have passed and furnished this Commission with copies of resolutions pursuant to which, pending action by this Commission on the application here involved, each company may install water systems in its presently authorized service area, and if the application is granted and any portion of the area served by one company is transferred to the other company, the transferring water company will transfer the installed system to the other company upon receipt of its costs. These resolutions are in conformance with the instructions of the Commission, and are approved.

Findings and Conclusions

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

1. Public convenience and necessity require that Application No. 43578 be granted as set forth in the ensuing order.
2. Vallecito and Suburban possess the financial resources to construct and operate the proposed water systems.
3. The money, property or labor to be procured or to be paid for by the issuance of the stock herein authorized, is reasonably required for the purposes specified and that such purposes 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 applicants' stock or properties nor as amounts to be included in any future rate base for determination of just and reasonable rates.
4. The rates which Suburban and Vallecito are authorized to charge are fair and reasonable for the services to be rendered.
5. Suburban's and Vallecito's water supplies and distribution facilities will provide reasonable services for the proposed certificated areas and will meet the minimum requirements of General Order No. 103.

6. Suburban should be permitted to execute a contract with Sunset, in the revised form outlined herein, for the initial extension of facilities costing not to exceed \$150,000 and to issue its common stock to Sunset at \$60 per share in lieu of cash refunds as they become due. Suburban is placed on notice hereby that in any future rate proceedings the results of operation in the Sunset Hills Project area will not be allowed to burden the remainder of Suburban's water system.

7. If any water supply permit is required, Vallecito and Suburban should secure said permit within 60 days after the effective date hereof, and file copies thereof with this Commission within 30 days thereafter.

8. The certificates hereinafter granted shall be subject to the following provision of law:

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

9. On July 19, 1962, after submission of these matters, Suburban filed a petition praying for an order rescinding ordering paragraph No. 3 of Decision No. 58716, dated July 7, 1959, in Applications Nos. 40628 and 40954, and ordering paragraph No. 7 of Decision No. 63116, dated January 16, 1962, in Application No. 43578, so as to permit Suburban to make contiguous extensions without first applying for and receiving authorization to do so by appropriate order of the Commission. No good cause appearing, the Commission finds that said petition should be denied.

10. The Commission further finds and concludes that the application of San Gabriel Valley Water Company should be denied.

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 is granted to Suburban Water Systems authorizing it to construct and operate a public utility water system within that area in Los Angeles County, California, containing 740 acres, more or less shown on Exhibit No. 13, Areas B and C thereof.

2. A certificate of public convenience and necessity is granted to Vallecito Water Company authorizing it to construct and operate a public utility water system for the distribution and sale of water within that area in Los Angeles County, California, on each side of Tetley Avenue containing 75 acres, more or less shown on Exhibit No. 13, Area A thereof.

3. Vallecito Water Company is authorized to apply its presently filed tariffs and, should the Commission subsequently order, appropriate changed tariffs to the area certificated herein.

4. Suburban Water Systems shall apply its presently filed tariffs and whatever appropriate tariffs may be authorized pursuant to pending Application No. 43241, as herein described, to the area certificated herein.

5. Vallecito Water Company and Suburban Water Systems are authorized and directed to revise, within thirty days after the effective date of this order, and in conformity with General Order No. 96-A, such of their tariff schedules including tariff service area maps acceptable to this Commission as are necessary to provide for the application of the respective present tariff schedules to the areas certificated herein. Such tariff sheets shall become effective upon five days' notice to the public and to this Commission after filing as hereinbefore provided.

6. Suburban Water Systems and Vallecito Water Company shall each 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.

7. Both Suburban Water Systems and Vallecito Water Company shall determine the accruals for depreciation by dividing the original cost of the respective depreciable utility plant less estimated future net salvage and depreciation reserve, by the estimated remaining life of the plant. Applicants shall each review the accruals when major changes in depreciable utility plant composition occur and for each plant account at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.

8. Neither Suburban Water Systems nor Vallecito Water Company shall, without further order of this Commission, further extend its respective service area.

9. Suburban Water Systems may enter into a contract with Sunset International Petroleum Corporation providing for refunds of advances with securities. Refunds for off-site facilities shall be on a proportionate cost basis, those for on-site facilities shall be on a percentage-of-revenue basis. Pursuant thereto and in accordance therewith Suburban may issue not to exceed 2,500 shares of its common stock at \$60 a share to Sunset International Petroleum Corporation in payment of refunds as they become due under said contract.

10. Suburban and Vallecito may execute the agreement, attached to the original Application No. 43578 as Exhibit A, within thirty days after the effective date of this order. Two

copies of said executed agreement shall be filed with this Commission within thirty days thereafter.

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

12. The petition of Suburban Water Systems for an order rescinding ordering paragraph No. 3 of Decision No. 58716 in Applications Nos. 40628 and 40954 and ordering paragraph No. 7 of Decision No. 63116 in Application No. 43578 is denied.

13. The application of San Gabriel Valley Water Company is denied.

14. The certificates and authority herein granted to Suburban Water Systems and Vallecito Water Company 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 31st day of JULY, 1962.

George J. Traver  
President

[Signature]

[Signature]

Commissioners



I have joined in the foregoing opinion and order, since the action here taken coincides generally with Decision No. 63490 in Application No. 40977. I express no opinion concerning similar use of securities in other cases. The main extension rule of all water utilities in California is currently being considered by the Commission in a pending general investigation (Case No. 5501).

  
President