

ORIGINAL

Decision No. 6404S

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of SUBURBAN WATER SYSTEMS, a
California corporation, for approval
of form and substance of refund
agreements pertaining to "in-tract"
and "back-up" facilities relating to
the 405 acre development of Penobscot
Investors Company No. 2 Inc., and
Lou Dillon Enterprises, together with
approval to extend its mains through-
out said development.

Application No. 44495
(Filed May 29, 1962)

O P I N I O N

Applicant requests authority to extend its water facilities, in accordance with the terms of two types of contract (Application, Exhibits A, B), to a 405-acre, luxury-home development situated in hills above the City of Whittier. Authority is also requested to issue 12,000 shares of Series "B" 3% cumulative preferred stock, of an aggregate par value of \$600,000, to pay, on a dollar-for-dollar basis, past due and future refunds of construction advances by developers of the project, Penobscot Investors Company No. 2, Inc., and Lou Dillon Enterprises.

The application has been filed, after consultation with the Commission's staff, in substantial conformance with suggestions contained in a recent Commission decision, which rejected, after hearing, as unduly burdensome on other consumers, a plan proposed by applicant to refund construction advances with 3% stock in accordance with a modified proportionate cost formula based on paragraph C.2.a. of applicant's current main extension rule (Decision No. 63490, April 2, 1962, Application No. 40977).

The Penobscot development, discussed in some detail in the former decision, involves preparation of estate-size parcels of land and gradual provision of water facilities, including booster and storage capacity required for the exclusive use of the project, over a period of from three to five years. More than 70 services have already been installed. The area comprises a cul-de-sac in applicant's Whittier system; in consequence, applicant alleges, it is not anticipated that the present developers will expand beyond the 405-acre project or that there will be peripheral developments by others. The terrain is hilly and is located at higher elevations than can be served, without additional booster and storage capacity, by production and storage sources which supply lower portions of the system.

Applicant now proposes to construct the necessary facilities pursuant to the terms of two forms of contract, to be executed as the tracts are developed. The contract form for construction of in-tract facilities (Application, Exhibit A) provides for refund of the cash deposit, adjusted to actual cost of construction, by payment to the developer of the utility's Series "B" 3% cumulative preferred stock at par value of \$50 per share, in an aggregate amount, on a dollar-for-dollar basis, which will be equal to 22% of the annual revenue (including fire hydrant revenue) for the prior calendar year from each bona fide customer within the area to be served by the extension, exclusive of any customer formerly served at the same location, connected directly to the extension for which the cost is advanced, until such time as the total amount of the adjusted deposit has been paid.

Applicant estimates that average annual revenues per service in the development will range between \$150 and \$200, as compared with the present company-wide average of about \$60 per year.

With construction costs running about \$600 per lot for the initial tracts (including a portion of the cost of required booster facilities -- see Decision No. 63490, supra), comparable costs and revenues for additional tracts, if developed at the pace of the initial units, would result, according to applicant's estimates, in full refund of the advances in approximately 15 years. Provision has been made in the contract for full repayment of the advance, applicant alleges, in order to qualify, under federal income tax procedures, for depreciation on plant other than that represented by amounts currently refunded. Also, applicant alleges, such depreciation allowances will result in an advantage to the consumer because of lower utility income taxes.

The contract form for provision of back-up facilities (Application, Exhibit B), consisting of storage and booster plant needed exclusively for the development and, where required, some oversize mains to transport water to extremities of the project, provides for refund of the adjusted deposit for such facilities with Series "B" 3% cumulative preferred stock, of a par value of \$50 per share on a dollar-for-dollar basis, for the allocated cost of supplemental facilities required to serve specifically defined areas. Refunds, limited to a period of 10 years, will be made for each bona fide customer directly connected to the extension to be served by the supplemental facility, are payable quarterly, will commence immediately upon completion of the facility with respect to presently connected customers and at the end of the first quarter following service to a bona fide customer within prospective tracts to be developed in the specified area. Such refunds will comprise that portion of the total advance which is determined from the ratio of the total advance to the total number of lots to be served by the facilities covered by the advance. Both existing and prospective bona fide customers are to be included in calculating refunds under this type of contract.

Applicant alleges that the 10-year limitation on refunds, as provided by the proportionate cost refund method of its current

main extension rule, has been included in the proposed contract form for back-up plant advances in the belief that it would be inequitable to ratepayers to have included in plant, and thus in the utility's rate base, facilities which would not be fully utilized in the absence of eventual complete saturation of the project.

On consideration of the application, we find and conclude that the requested authorizations are not adverse to the public interest and should be granted. A public hearing is not necessary.

O R D E R

Application therefor having been filed and considered, the Commission now being informed in the premises and being of the opinion that the money, property or labor to be procured or paid for by the issuance of the stock herein authorized is reasonably required for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS ORDERED that:

1. Suburban Water Systems, a corporation, from time to time after the effective date of this order, may execute and carry out, substantially in accordance with the forms attached to the application herein as Exhibits A and B thereof, contracts for construction and installation of in-tract and off-site water facilities reasonably required for water service to the 405-acre development in the utility's Whittier District service area described in the application herein.

2. Suburban Water Systems shall file with the Commission and maintain in current status, pursuant to the provisions of General Order No. 96-A, Section C.(3), a summary list of all contracts executed under the authority herein granted.

3. Suburban Water Systems, after the effective date of this order, from time to time and in such amounts as may be provided by the terms and conditions of any contract executed in accordance with the authority herein granted, may issue and sell not to exceed a total of 12,000 shares, of an aggregate par value of \$600,000, of its Series "B" 3% cumulative preferred stock for the purposes described in the foregoing opinion, which purposes shall include the refund, when due, of construction advances heretofore made by developers of said 405-acre tract.

4. 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.

The effective date of this order shall be the date hereof.

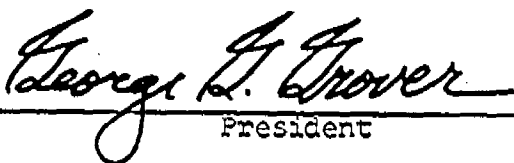
Dated at San Francisco, California, this 31st day of JULY, 1962.

George J. Grover
President

Commissioners

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