

ORIGINALDecision No. 65219

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Amended Application)
of GRAND OAKS WATER COMPANY, a)
California corporation, for a Cer-)
tificate of Public Convenience and)
Necessity and for Authority to Issue)
Stock.)

Application No. 43906
Filed November 9, 1961
Amended October 16, 1962

Deadrach and Bates by Kenneth H. Bates,
for applicant.
Sidney J. Webb and W. B. Stradley, for
the Commission staff.

O P I N I O N

Public hearing was held before Examiner Power at Bakersfield on December 12, 1962, and the matter was submitted at that time.

The area sought to be served is located approximately four miles west and one mile south of the center of the City of Tehachapi, Kern County. The level of the terrain is at or near the 4100 foot contour line. The nearest water service is the city-owned system in Tehachapi. The nearest regulated utility is at Rosamond, about 26 miles to the southeast.

The incorporators of applicant own two wells immediately south of the proposed service area. Both are 14" in diameter. Well No. 1 is 208 feet deep and Well No. 2 is 168 feet deep. A 12,500-gallon storage tank will be installed at an elevation of approximately 4,400 feet in the southwesterly part of the tract. This will provide gravity flow at 25 - 125 pounds per square inch pressure. Pressure reduction will be necessary in the northeasterly portion of the proposed area.

The applicant's proposal, in its financial aspect, cannot be entertained by the Commission. This proposal covers 116 services.

As envisaged by applicant most of the necessary capital would be in the form of advances for construction. The over-all figures set forth in Exhibit A to the amended application are: Applicant's contribution, \$34,990; subdivider's total advances, \$58,170.50.

In addition to the situation respecting advances for construction the rate proposal is unrealistic. This proposal includes a meter minimum rate of \$51 per year (i.e. \$4.25 per month) with an entitlement of 900 cubic feet per month. The flat rate proposed is \$45 per year for a single family residence with an added charge of \$22.50 per year for each additional residential unit. The rates as proposed may not meet the estimated expenses of \$8,495 per year (116 x 45 = \$5,220; 116 x 51 = \$5,916).

It appears, however, that if applicant were authorized to apply equity financing to all plant to be installed in the area south of the northerly boundary line of Tract No. 2587, many bad features of the proposal would be eliminated. Tract No. 2587 is a string of lots of approximately one acre each extending in a general northerly and southerly direction. Applicant's investment to service the area southerly of said northerly line of that tract, based upon estimates in Exhibits A, B and D to the amended application, would be:

Organization	\$ 1,000
Production Plant	14,195
Storage Tank	1,990
Transmission Mains	9,855
Distribution Mains	11,752
Meters: 47 at \$50 each	2,350
Services: 47 at \$10 each	470
Total Plant	<u>41,612</u>
Less Land (well site) and organization	<u>5,000</u>
Depreciable Plant	36,612

Northerly of that line applicant should extend under its main extension rule to be filed. If and when it completes extensions to all 116 lots included in its proposal, \$45,458 will have been received as advances for construction and its equity position will have been increased by investment in back-up plant as follows:

69 Meters at \$50 each	\$ 3,450
250-Barrel Storage Tank	1,990
Pressure Tank and Regulator	<u>650</u>
Total	\$ 6,090

Total equity financing will thus be \$47,702 and total advances for construction will be \$45,458. This is a ratio of advances to net plant of 48.8 percent. Applicant is placed on notice that it will not be permitted to increase this ratio above 50 percent without specific authorization by this Commission.

It appears that a flat rate of \$72 per year and a metered minimum of \$63 per year for meters of the 5/8 x 3/4-inch size will more nearly fit the situation than the proposed rates.

Assuming an income of \$72 per service and 47 services, a hypothetical result of operation for the first year would be:

Revenue (\$72 x 47)	\$ 3,384
Deductions from Revenue	
Expenses	1,504
Ad Valorem Taxes (7% of 1/2 of \$40,612)	711
Income Taxes	100
Depreciation (3% of \$36,610)	<u>1,098</u>
Total Deductions	<u>3,413</u>
Net Revenue	(29)
Average Rate Base	41,063
Rate of Return	Negligible Loss

(Red Figure)

Applicant has applied for authority to issue shares of its no par value common capital stock. The application requests 3,700 shares stated to have a value of \$37,000. It was proposed to issue stock to applicant's directors, three in number, to provide funds for the well site and cash needed to construct the plant. Since the equity financing contemplated by the following order is greater than that in the application, the excess over \$37,000 should be by open account advances.

The Commission finds that:

1. Public convenience and necessity require that the application be granted to the extent set forth in the following order.
2. Applicant possesses the financial resources to construct and operate the proposed water system.
3. The rates set forth in Appendix A attached hereto are fair and reasonable for the service to be rendered.
4. Applicant's water supply and distribution facilities will provide reasonable service for the certificated area and meet the minimum requirements of General Order No. 103.
5. Applicant has not applied for a water supply permit from the health authority having jurisdiction.
6. The application supports \$47,700 of equity financing; however, in accordance with Section 819 of the Public Utilities Code, the Commission cannot authorize applicant to issue more than \$37,000 stated value of stock, as requested in the application.
7. The money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required for the purposes specified herein, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.
8. Because of the proposed future expansion of the water system, it is appropriate that the 21-lot Tract No. 2587, the 17 lots adjoining that tract to the west, and the 9 lots in the southwest corner of the area certificated herein, should all be considered as the initial development. The main extension rule to be filed by applicant need not apply to that initial development.

The certificate hereinafter granted shall be subject to the following provision of law:

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.

In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the approval herein given 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 a future rate base for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. A certificate of public convenience and necessity is granted to Grand Oaks 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 requested and as delineated on the map attached to the amended application and as designated Exhibit B thereto.
2. After the effective date of this order, applicant is authorized to file the rates set forth in Appendix A attached to this order, to be effective on or before the date service is first furnished to the public under the authority herein granted, together with rules and a tariff service area map, acceptable to this Commission and in conformity with General Order No. 96-A. After having been so filed, such rates, rules and tariff service area map shall become effective upon five days' notice to this Commission and to the public.

3. Main extensions to serve areas other than those found herein to be the "initial development" shall be made by applicant in accordance with its filed main extension rule.

4. Within ten days after the date service is first rendered to the public under the rates and rules authorized herein, applicant shall so notify this Commission in writing.

5. Within thirty days after the system is placed in operation under the rates and rules authorized herein, applicant shall file four copies of a comprehensive map, drawn to an indicated scale of not more than 400 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. Beginning with the year 1963, applicant shall determine depreciation accruals by multiplying the depreciable utility plant by a rate of 3 percent. This rate shall be used until review indicates that it should be revised. Applicant shall review the depreciation rate, using the straight-line remaining life method, when major changes in utility plant composition occur and at intervals of not more than five years, and shall revise the above rate in conformance with such reviews. Results of these reviews shall be submitted to this Commission.

7. Prior to the date service is first furnished to the public under the rates and rules authorized herein, applicant shall (a) apply to the appropriate public health authority for a water supply permit for the system which will serve the area herein certificated, and (b) report to the Commission in writing, within ten days thereafter, that such application has been made.

8. Applicant, for the purposes herein set forth, may issue not to exceed 3,700 shares of its no par value common capital stock at a stated value of \$10 per share.

9. Applicant 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.

10. The certificate 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.

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

Dated at San Francisco, California, this 16th day of APRIL, 1963.

George L. Hoover
President
W. P. [unclear]
W. W. [unclear]
Frederick B. Holshoff
Dallas M. [unclear]
Commissioners

APPENDIX A
Page 1 of 4

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

The area known as Grand Oaks, and vicinity, located about 1/4 miles west of Tehachapi, Kern County.

RATES

Monthly Quantity Rates:	<u>Per Meter Per Month</u>
First 600 cu.ft. or less	\$ 5.25
Next 1,400 cu.ft., per 100 cu.ft.30
Next 2,000 cu.ft., per 100 cu.ft.26
Over 4,000 cu.ft., per 100 cu.ft.23

Annual Minimum Charge:	<u>Per Meter Per Year</u>
For 5/8 x 3/4-inch meter	\$ 63.00
For 3/4-inch meter	78.00
For 1-inch meter	108.00
For 1 1/2-inch meter	183.00
For 2-inch meter	252.00

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility
(Continued)

APPENDIX A
Page 2 of 4

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

SPECIAL CONDITIONS (Continued)

for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated minimum charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods for water used in excess of the monthly allowance under the annual minimum charge. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis.

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual minimum charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three hundred sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

Schedule No. 2RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service furnished on an annual basis.

TERRITORY

The area known as Grand Oaks, and vicinity, located about 4 miles west of Tehachapi, Kern County.

RATES

	<u>Per Service Connection Per Year</u>
For a single-family residential unit, including premises	\$72.00
For each additional single-family residential unit on the same premises and served from the same service connection	36.00

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classifications shall be furnished only on a metered basis.
3. For service covered by the above classifications, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual General Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum meter charge for the same period shall be made on or before that day.

(Continued)

Schedule No. 2RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS (Continued)

4. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated flat rate charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods.

5. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three hundred sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.