

ORIGINAL

65273

Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 ROSSMOOR WATER COMPANY, a corporation,
 for a Certificate of Public Convenience
 and Necessity authorizing Applicant to
 construct and operate a public utility
 water system in Orange County,
 California, and for the authority to
 issue stock and other securities.

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) Application No. 44672
) Filed July 30, 1962
) Amended November 27, 1962
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Rutan, Lindsay, Dahl, Smedegaard, Howell & Tucker,
 by Milford W. Dahl, for applicant.
C. J. Newman, R. R. Entwistle, and A. L. Gielegem,
 for the Commission staff.

O P I N I O N

Rossmoor Water Company, a corporation, by the above-entitled application seeks a certificate of public convenience and necessity to construct and operate a public utility water system in a senior citizens' project to be known as Rossmoor Leisure World in unincorporated territory of Orange County. Authority to issue common and preferred stock and notes is also sought, together with the establishment of rates for water service.

After due notice public hearings were held before Examiner Warner on December 6, 1962, at Santa Ana and on December 12, 1962, at Los Angeles. No protests to the granting of the application were entered and the matter was submitted on the last-named date. On January 29, 1963, submission was set aside and the matter was reopened. Further hearings were held before Commissioner Mitchell and Examiner Warner on February 7 and 8, 1963, at Los Angeles. Briefs have been received and the matter is now ready for decision.

General Information

The applicant was incorporated on May 24, 1962, and the Articles of Incorporation were amended on June 19, 1962, to increase the number of directors from three to five. The original directors as set forth in said Articles, were Milford W. Dahl and William B. Harmon of Santa Ana and Joseph R. Harmon of La Habra. Officers are: Ross W. Cortese, president, Milford W. Dahl, vice president, Hugo de Castro, secretary, and Marvin Goodson, treasurer. John Toups has been elected a director.

By its Articles of Incorporation applicant is authorized to issue 55,000 shares of stock with an aggregate par value of \$5,500,000 divided into 20,000 shares of 6% cumulative preferred stock and 35,000 shares of common stock, each with a par value of \$100 per share.

Proposed Operations

Applicant proposes to furnish domestic water service to approximately 2,100 apartment houses of the Rossmoor Leisure World project, about 10 miles south of Santa Ana on the southwest side of the San Diego freeway and east of Laguna Canyon Road. Adjoining the project will be a commercial shopping center area with two large department stores and many shops and an area north of the freeway has been set aside as an industrial park site. Triplex, quadruplex, 8-, 12-, and 16-unit apartment houses will be occupied by an estimated average of 1.75 occupants per unit, and total ultimate population is estimated to be 40,000. Each apartment-house dwelling unit will be occupied by the purchaser and owner of a share of stock in a non-profit mutual corporation which will own a group of apartment houses in a section of the project. Ross W. Cortese is the landowner and developer. Golden Rain Foundation, a nonprofit corporation in which each apartment-house dwelling-unit occupant will also own a share

of stock, will contract with each mutual to manage the project. Each apartment house will be served through a single meter, and bills for water service will be rendered by applicant to the mutual-company owner of each apartment house. Dwelling-unit occupants will pay for water service according to the average of the charges for water service billed to each group of apartment houses owned by a mutual, in total. Payments by dwelling-unit occupants for water service will be made to the mutual, along with payments for mortgage principal, interest, prorated costs of operation of the memorial park, recreation facilities, hospital and medical care, and other costs of operation of the project. Charges for electric utility service will be billed directly to each dwelling-unit occupant. There will be no gas utility service.

Total acreage originally sought to be certificated amounts to 3,600 acres of flat and rolling hill land which is now being used for dry farming and cattle raising. A memorial park and golf course will be located within a 2,000-foot wide strip of land set aside by the developer as an over-flight area for planes of the United States Marine Corps at El Toro Marine Corps Air Base. Said strip will be free of buildings except the golf clubhouse. An additional 500 feet on either side of the strip has been set aside on which no buildings will be constructed for six years but development of which will be subject to review with the Marine Corps every two years. Additionally, the buildings within the next 500 feet on either side of the strip will be insulated against sound of over-flying aircraft.

Exhibit No. 12 is a map showing the proposed development of the project together with the proposed water system installations. Said map does not show the location of the reserved strip but the

record discloses that it will traverse the center of the proposed area generally from south to north. The applicant proposes to develop the project in five phases extending over a six-year period. Phase I, to be constructed during 1963 and 1964, will comprise 740 acres and will constitute a complete unit, that is to say, it will include all types of residence units. Based on an average of 12 to 13 units per acre, Phase I will contain approximately 7,400 apartment units within some 700 apartment buildings with approximately 13,000 occupants.

The record shows that single-family residences are planned to be constructed in the rolling foothills on the perimeter of Leisure World but the area in which their construction is proposed was not included in the original application. In order to so include them applicant amended the application at the hearings and sought certification of all lands within the boundaries of El Toro Water District. Such inclusion increased the area sought to be certificated to approximately 5,700 acres. Such area would coincide with the area covered by a franchise sought from Orange County.

Source of Water Supply

Applicant's principal water supply will be from El Toro and Moulton-Niguel Water Districts which have aqueducts designed to deliver 1.61 and 1.37 acre-feet of water per acre per year, respectively. If these delivery rates per acre are applied to the portions of applicant's proposed service area within each district, 5,500 acre-feet of water will be available each year. Exhibit No. 16 shows an annual requirement for residential, commercial and similar land uses of 5,250 acre-feet and for industrial land use of 2,560 acre-feet; or total annual requirement of 7,810 acre-feet. The Commission staff concluded that the source of supply would be

sufficient only to serve the residential and commercial demand. However, the record shows that the staff added 10% water losses to the 2½ af per acre duty to determine gross requirements, whereas the company contended that the 2½ af per acre would include losses. The record further shows that additional sources of supply may be available to the applicant through greater capacity use of El Toro's transmission line and of the Santiago Aqueduct (jointly constructed by El Toro and Los Alisos Water Districts). Also the record shows that when future development of this portion of southeastern Orange County may have taken place, land value tax bases may have increased sufficiently to permit financing the construction of additional large-sized transmission mains into and through the area. Some water from local wells may also be available. Water for the memorial park golf course will be provided by sewage effluent.

The initial cost of water purchased by applicant from El Toro and Moulton-Niguel will be \$50 per acre-foot subject to an annual \$3.00 increase of the basic rate, as of January 1, 1963, of the \$21/af charge for Metropolitan Water District water purchased by El Toro. El Toro's wholesale rate of \$50/af to applicant includes the \$21/af basic rate plus a \$3/af of aqueduct surcharge for use of the Santiago Aqueduct; a \$10/af of water treatment cost; \$1.70/af of line losses' costs; \$4.30/af of distribution costs; and \$10/af of cost for service of El Toro's bonds.

Financing

In the original application applicant proposed to finance the construction costs of the water system, totaling \$3,650,800, by investment capital and retained earnings. Capital proposed to be issued included \$1,030,000 common stock, \$470,000 preferred stock and \$1,600,000 of 6% five-year promissory notes.

As a result of the "phased" construction plans shown on Exhibit No. 12 and as further set forth in Table C of Exhibit No. 15, construction costs for water system facilities to be installed in Phase I by December 31, 1964, would total \$1,340,300

to be financed by borrowings of \$550,000 at 6%, by the sale of \$200,000 common stock, and by retained earnings.

If construction beyond Phase I were financed by advances for construction covering extensions to applicant's basic production, transmission and storage facilities, in amounts and proportions designed to maintain a sound and well-balanced capital structure, the following capital structure as of December 31, 1968, would result:

	<u>Amount</u>	<u>Per Cent</u>
Advances for Construction	\$ 865,400	24.9
Debt	780,000	22.4
Subtotal	<u>\$1,645,400</u>	<u>47.3</u>
Preferred Stock	230,000	6.6
Common Stock Equity	1,606,957	46.1
Total	<u>\$3,482,357</u>	<u>100.0</u>

The record shows that all financing would be provided by applicant's president.

Rates

Applicant proposed in Exhibit No. 1 a schedule of general metered service rates for each apartment house, plus a \$1.80 surcharge for each dwelling unit of such apartment house in addition to one. Average water usage per apartment building was estimated to be 6,200 cu. ft. per month and the monthly average charge for such usage would be \$21.05 plus the surcharge of \$1.80 per unit in addition to one. Thus, the monthly charge for a 12-unit building with such usage would be \$40.85 or about \$3.41 per unit which said charge as noted heretofore would be paid by the mutual company owning the apartment building and included by said company in each unit's occupant's monthly bill on an average prorated basis of all monthly charges applicable to all apartment houses owned by the mutual.

The record shows that applicant computed its revenue requirements to produce a 7.5% rate of return on the 1968 estimated

rate base without having considered the effect of income tax reductions available for a 3% credit of qualified investment in personal property; without having included land values at actual cost; and having included in estimates of operating expenses certain estimated administrative expenses which staff engineers testified were unreasonable, in their opinion, when compared with such expenses estimated for other utilities of similar operational scope.

Exhibit No. 15 shows that applicant's proposed rates for water service would produce rates of return varying from 6.46% in 1964 to 8.78% in 1966, and to 8.13% in 1968 on all phases of the project and rates of return of 6.52% in 1964, of 7.16% in 1965, and of 5.13% in 1966 on Phase I.

A staff accountant recommended that the filing of the applicant's proposed rates for water service be authorized for Phase I, but not for other phases. A Commission staff engineer concluded that if the proposed surcharge were to be deleted, the rates proposed by applicant would be reasonable for initial rates provided appropriate minimum charges for various sized meters were established.

Findings

Upon consideration of the record the Commission finds as follows:

1. Public convenience and necessity require that a certificate of public convenience and necessity be granted as originally applied for, except for the memorial park and industrial park, and that applicant be restricted to the area covered by such certificate pending further order of the Commission.

2. The application to issue stock and other securities should be granted in part and denied in part, and applicant should be authorized to issue 8,000 shares of common stock with an aggregate par value of \$800,000 and five-year promissory notes in the

total amount of \$550,000 at interest not to exceed 6% per annum to finance construction of the water system in and to serve the development of Phase I as set forth in Table C of Exhibit No. 15. Authority to issue stock and other securities to finance construction of additional water system facilities, other than those properly covered by construction advances, within the certificated area should be sought upon or nearly upon the completion of Phase I. Because of the magnitude and scheduled installation dates of the proposed expansion of the water system, it is appropriate that all of Phase I be considered the initial development to which the main extension rule to be filed by applicant need not apply.

3. Applicant should be authorized to file the schedule of rates for water service set forth in Exhibit No. 1, except that the proposed surcharge should be deleted and appropriate minimum charges for various sized meters should be established.

4. Applicant has shown that it will have an adequate supply of water to serve the area certificated herein.

The certificate of public convenience and necessity hereinafter granted shall be subject to the following provision of law:

That 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.

The authority to issue stock and to execute long-term obligations hereinafter granted shall not be construed to be a finding of the value of the properties of the applicant and shall not necessarily be utilized as a basis for determining applicant's rates for water service.

When the applicant has filed a supplemental application herein to which is attached a copy of the franchise issued by the Board of Supervisors of the County of Orange to cover the area requested in this proceeding, the Commission will issue a certificate of public convenience and necessity authorizing applicant to exercise such franchise upon such terms and conditions as the Commission may designate.

O R D E R

IT IS HEREBY ORDERED that:

1. Rossmoor Water Company, a corporation, is granted a certificate of public convenience and necessity to construct and operate a public utility water system to serve the area comprising some 2,300 acres of unincorporated territory of Orange County to be known as Rossmoor Leisure World the boundaries of which are defined by Phases I, II, III, IV and V on the map Exhibit No. 12.

2. Applicant shall not extend or furnish water service outside its certificated area boundaries without further order of the Commission.

3.a. Applicant is authorized to issue not to exceed 3,000 shares of its common stock of a par value of \$100 per share and an aggregate par value of \$300,000 to Ross W. Cortese to finance in part the construction of the water system in and to serve Phase I of the development of Rossmoor Leisure World and to issue not to exceed \$550,000 of five-year promissory notes bearing interest not in excess of 6% per annum to Ross W. Cortese to finance the balance of the estimated costs of the construction of water system facilities in and to serve Phase I of Rossmoor Leisure World; the Commission being of the opinion that the money,

property or labor to be procured or paid for by the issue of the securities 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.

3.b. Main extensions to serve other than Phase I, the initial development, shall be made by applicant in accordance with its filed main extension rule.

4.a. Applicant is authorized to file in quadruplicate with the Commission within one year after the effective date of this order, to be effective on or before service is first rendered to the public under the authority herein granted, and in conformity with the Commission's General Order No. 96-A, the schedule of rates shown in Appendix A attached hereto, together with rules and a tariff service area map acceptable to this Commission. 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.b. Applicant shall 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.

5. The authorization herein granted for issuance of stock shall expire if not exercised before June 30, 1965.

6. Upon the filing by applicant of a supplemental application to which is attached a copy of the franchise issued by the Board of Supervisors of the County of Orange, the Commission will issue a certificate of public convenience and necessity authorizing it to exercise such franchise upon such terms and conditions as the Commission may designate.

7. Applicant shall base the accruals to the depreciation reserve upon spreading the original cost of the utility plant,

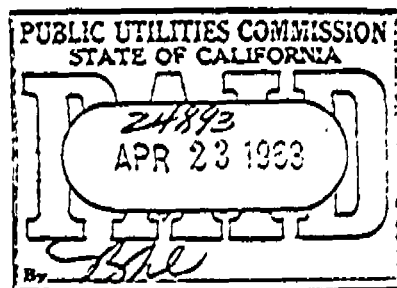
less estimated future net salvage and depreciation reserve, over the remaining life of the plant. Applicant shall review the depreciation rates as of January 1 of the year following the date service is first rendered to the public under the rates and rules authorized herein and thereafter when major changes in 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. Applicant shall file with the 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.

9. This order shall become effective when the applicant shall have paid to the Commission the fee prescribed by Section 1904(b) of the Public Utilities Code for the authority to assume long-term indebtedness, which said fee is \$550.

Dated at San Francisco, California, this 23rd day of APRIL, 1963.

George A. Hoover
President
John P. Mitchell
Robert W. May
Fredrick B. Helshoff
William W. Bennett
Commissioners



APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as Rossmoor Leisure World, located near El Toro, Orange County.

RATES

Quantity Rates:		<u>Per Meter Per Month</u>
First	500 cu. ft. or less	\$ 3.00
Next	800 cu. ft., per 100 cu. ft.40
Next	6,700 cu. ft., per 100 cu. ft.30
Next	10,000 cu. ft., per 100 cu. ft.27
Next	30,000 cu. ft., per 100 cu. ft.24
Over	48,000 cu. ft., per 100 cu. ft.23

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 3.00
For	3/4-inch meter	4.00
For	1-inch meter	7.00
For	1 1/2-inch meter	12.00
For	2-inch meter	18.00
For	3-inch meter	30.00
For	4-inch meter	45.00
For	6-inch meter	90.00

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.