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ORIGINAL

Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of RALPH P. ALDRIDGE, and EULETTA V. ALDRIDGE, individually, for a Certificate of Public Convenience and Necessity; to operate a public utility water system in Madera County; and to establish rates.

Application No. 45637 (Filed August 2, 1963)

Jack L. Hammerberg, for applicants. Arthur C. Fegan and Sidney J. Webb, for the Commission staff.

O P I N I O N

By this application, Ralph P. Aldridge and Euletta V. Aldridge, husband and wife, seek a certificate of public convenience and necessity for the construction of a water system, request authority to operate the system under the fictitious name of Royal Oaks Water Supply, and seek authority to enter into an agreement covering their purchase of the system.

This application was heard before Examiner Catey at Madera on October 16, 1963, and was submitted on October 31, 1963, the date of receipt of late-filed Exhibit No. 2 and a written closing statement by applicants' counsel. Copies of the application and notice of hearing were served in accordance with this Commission's rules of procedure. There are no protests to the application. One public witness testified in favor of the application.

Service Area

Applicants' proposed service area consists of some 40 acres in Madera County known as Royal Oaks Estates Subdivision, Tract No. 92. This area is located immediately southwest of the unincorporated community of Oakhurst and southeast of State Highway 41. It has been subdivided into 75 residential lots averaging

about one-half acre each in area. It is surrounded on three sides by potential residential subdivision land and is adjacent on one side to the business portion of Oakhurst. Elevations in this area slope gently upward from 2,240 feet above sea level, at the bank of the Fresno River, to 2,350 feet.

The public utility water system nearest to the area requested by this application is that of Broadview Terrace Water Company, located about one mile to the northeast. Individually owned wells supply the residents of Oakhurst. The nearest mutual water company, Yosemite Forks Mutual Water Co., is located three miles north of the area requested.

Tract No. 92 is the same area previously requested by Oakhurst Water Company in Application No. 43603, filed July 17, 1961. That application was dismissed without prejudice on October 23, 1962, by Decision No. 64459, at the applicant corporation's request. The principal problem at that time apparently was a disagreement with Madera County regarding title to the utility properties.

Applicants expect that most of their customers would be year-round residents who are retired or semi-retired. Some vacation homes are likely, due to the proximity of the subdivision to Yosemite National Park, Bass Lake and other vacation areas.

Water System

The water system is already installed in the subdivision and is now being operated by Madera County to serve five homes and an apartment building. The installation cost of about \$36,400 was financed by the formation of an improvement district and sale of bonds, the principal and interest of which are liens upon the 75 lots in the subdivision. None of the parties at the hearing were able to explain how, or even if, a transfer of title from the improvement

district to Madera County had taken place. The county did not join in the application, nor did it enter an appearance at the hearing.

The present system consists primarily of a well, a pump, a storage tank, distribution mains, and service pipes. Applicants expect to provide additional wells when such are needed.

Rates

The application, as filed, requested monthly rates for metered service. At the hearing, Mr. Aldridge stated that he preferred not to install meters and asked that basic monthly flat rate charges of \$10 and \$5, respectively, be authorized for summer and winter use. A charge of \$4.50 per hydrant per month was proposed by applicants, to apply at such time as an organized fire protection district is formed in the area.

Financing

Applicants propose to purchase the water system from Madera County for the sum of \$38,000. A down payment of \$500 would be made upon execution of the proposed transfer agreement, a copy of which is attached to the application as Exhibit "I". The \$37,500 balance would be payable, without interest, on the basis of ten percent of the gross proceeds received by applicants. The Commission staff report, Exhibit No. 3 herein, shows that it would take about 55 years to pay for the system.

Summary

There are four ~~important~~ factors to consider relative to applicants' plans for acquisition and operation of the water system. These are: (1) potential economic impact on customers; (2) financial feasibility of the purchase plan; (3) applicants' financial ability; and (4) title to the water system.

The potential economic impact on applicants' future customers is of considerable concern. As purchasers of lots subject

to liens for payment of principal and interest on improvement district bonds, those customers would have provided practically all of the capital for the water system. There is nothing in applicants' proposed purchase agreement, nor in the record in this proceeding, to indicate that the payments made by applicants to purchase the water system would necessarily be used to reduce the amount of liens on the customers' lots. In fact, under the terms of the agreement, payments by applicants' heirs or successors would continue long after the improvement district bonds will have been paid off. Under applicants' proposal, the customers would be subject to water rates which would provide revenues sufficient to cover operating expenses, depreciation, and a return on applicants' investment, together with income taxes on that return, even though the customers had already contributed the cost of practically all of the utility system.

In judging the financial capabilities of a proprietorship utility operation, consideration must be given to the capital structure of the utility unless its owners are so affluent that their other resources would cover any contingencies. Applicants' proposed method of financing would result in the extremely unbalanced capital structure of less than two percent equity and over 98 percent debt. This relationship would not be improved materially for a number of years and would seriously impair applicants' ability to obtain future loans if and when needed. Further, payments on the original water system would continue for many years after it had been fully depreciated and replaced.

As indicated in the preceding paragraph, the personal financial capabilities of applicants are important. Assuming that water rates were set which would not provide an excessive return on

applicants' nominal capital investment, there would be such a slim margin of profit that changes in operating expenses or unforeseen repair costs could cause a serious drain on their other resources. Also, as Mr. Aldridge testified, the proposed utility operation will not break even during the tract's early development period, estimated by him to be five years. If there were fewer vacant lots in the tract, and if the utility operation were adequately capitalized, applicants' personal financial position as shown on Exhibit "H" to the application would be quite adequate. Under the circumstances described herein, the venture appears to be so speculative and potentially uneconomic that future rendering of adequate service to the public could be jeopardized.

Applicants may well have difficulty in obtaining clear title to the water system. The previous certificate application by Oakhurst Water Company was withdrawn because of that difficulty. The staff report, Exhibit No. 3 herein, shows that lawsuits are still pending concerning ownership of the water system. The preliminary title report, Exhibit No. 2 herein, covers only the real estate to be used in the proposed utility operation, not the water system itself.

Findings and Conclusion

The Commission finds that:

1. It would be adverse to the public interest for applicants to carry out the terms of the purchase agreement, Exhibit "I" to this application.
2. The capital structure proposed by applicants for the utility operation is not appropriate.
3. Applicants have not shown that their personal financial position is strong enough to overcome the deficiencies in the capital structure for the utility operation.

4. Applicants have not shown that they can obtain clear title to the water system they propose to operate as a public utility.

The Commission concludes that this application should be denied.

O R D E R

IT IS ORDERED that Application No. 45637 is denied.

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

Dated at San Francisco, California, this 26th day of November, 1963.

William W. Bernard
President
George L. Hoover
Frederick B. Hilshoff
Commissioners