

ORIGINAL

Decision No. 66402

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
LITTLE BEAR WATER COMPANY, INC., a  
California corporation, for a cer-  
tificate of public convenience and  
necessity to operate a water utility,  
to establish rates, and for an order  
authorizing the issuance of its  
shares for cash and real and per-  
sonal property.

Application No. 44350

Jan Alton Walker, for applicant.  
Sidney J. Webb and Arthur C. Fegan, for  
the Commission staff.

O P I N I O N

In this application for a certificate of public convenience and necessity, applicant also seeks authority to establish rates and to issue stock. The original application was filed April 13, 1962 and amended October 30, 1962, March 27, 1963 and September 16, 1963. After the first amendment a hearing was held at Salinas on February 27, 1963, before Examiner Power. Submission was deferred pending further amendment to conform to proof.

The March 27, 1963 amendment, when received and reviewed, was found not to conform to proof. The nonconformity arose from the inclusion in that amendment of a proposal to finance construction in part by a note for \$14,273. Equity capital of \$30,500 was also proposed. Because of the high amount of debt included in the original planned financing there was danger that applicant could not

make further needed extensions.<sup>1</sup> In view of the good prospects for development in the service area, the Commission staff contended that public convenience and necessity would not be served by this kind of financing and a further hearing was recommended. This fact was communicated orally to applicant's counsel, who after consultation with applicant's officers filed a third amendment. With this filing the matter is ready for decision and a further hearing is unnecessary.

The area proposed to be served, about 1,400 acres, is called Pine Canyon. It lies about three miles southwest across the Salinas River from King City. At the time of the hearing applicant's incorporators were selling water on contract to 41 consumers. The nearest public utility water system is the King City District of California Water Service Company.

A new subdivision is being proposed adjacent to the present service area, and will consist of 97 houses on approximately 26 acres. The record discloses no plans for the development of the balance of the area for which certification is requested.

Applicant's president testified that most water in Pine Canyon is too hard. At the mouth of the canyon, however, water of good quality is available on farm property owned and operated by the witness and his wife, Mr. and Mrs. Hall. These two are the sole proposed stockholders of applicant. There are two wells on this property. One, capable of producing 650 gallons per minute against system pressure, is to become the property of the utility and will be devoted entirely to utility service. The other well, capable of delivering 1,300 gallons per minute, will be retained by the Halls and, though it will continue in farm use, will be available for standby service when needed.

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<sup>1</sup> Applicant's president testified that the potential in the area is 400 services. The original financing would cover 83.

A 4,000-gallon pressure tank will be installed at the utility well and a 1,000-gallon pressure tank at the standby well. Both will be connected with the system by 6- and 8-inch, concrete lined, steel pipe. Mains will consist of 4-inch, asbestos cement pipe with some short runs of 6-inch, asbestos cement pipe. Three-quarter inch copper services, 3/4-inch meters, appropriate valves and fire hydrants are installed.

Applicant proposes to install a reservoir of 100,000-gallon capacity. The system, including the proposed additions of storage, appears to be adequate to serve the present customers and the area to be subdivided, and to comply with the Commission's General Order No. 103.

#### The Rate Proposal

Applicant proposes to serve water only at metered service rates as follow:

First	400 cu.ft. or less	\$4.00
Next	800 cu.ft., per 100 cu.ft.	.50
Next	1,200 cu.ft., per 100 cu.ft.	.40
Over	2,400 cu.ft., per 100 cu.ft.	.30

Applicant included in its second amendment to the application estimated results of operations at its proposed rates. We have recalculated the estimated operating revenues (at the rates proposed by applicant) on the basis of the actual usage of the present customers, and we have adjusted operating expenses to a reasonable level and to exclude certain loan charges not properly included in such expenses. Operations under these revised estimates result in a rate of return of 8.0 percent. We have developed a rate blocking which will result in operating revenues of \$7,050 and a rate of return of about 5.8 percent, which we find to be reasonable. These revised rates are fair and reasonable and will be authorized by the order herein. The following tabulation summarizes the foregoing operating results.

ESTIMATED RESULTS OF OPERATIONS  
 (Assumed: 83 consumers, Rate Base \$40,500)

		<u>Adopted Results.</u>	
	<u>2d Amendment</u>	<u>Applicant</u>	<u>Author-</u>
	<u>to Application</u>	<u>Proposed</u>	<u>ized</u>
		<u>Rate</u>	<u>Rate<sup>3</sup></u>
Operating Revenues ....	\$7,071	\$ 8,460	\$ 7,050
Deductions from Revenues			
Operating Expenses	6,560 <sup>1</sup>	2,440	2,440
Depreciation Expense	-	1,110	1,110
Property Taxes .....	-	420	420
State Franchise Tax	-	200	120
Federal Income Tax	154 <sup>2</sup>	1,030	630
Loan .....	353 <sup>2</sup>	-	-
Total Expense ....	<u>7,067</u>	<u>5,200</u>	<u>4,720</u>
Net Revenue .....	4	3,260	2,330
Rate Base .....	-	40,500	40,500
Rate of Return .....	-	8.0%	5.8%

- 1 Operating expenses of applicant include depreciation and all taxes except federal income tax.
- 2 This represents one year's payment on the objectionable loan, which was withdrawn by the third amendment to the application.
- 3 The authorized rate blocking differs from applicant's proposal as follows:

	<u>Applicant</u>		<u>Authorized</u>	
Minimum Charge .....		\$4.00		\$4.00
Entitlement .....	400 cu.ft.		600 cu.ft.	
Rates per 100 cu.ft.	400 - 1,200	\$0.50	600 - 1,200	\$0.45
	1,200 - 2,400	.40	1,200 - 2,400	.35
	Over 2,400	.30	Over 2,400	.25
Cost for first	1,400	8.80		7.40

The Stock Proposal

The directors of applicant, at their first meeting, fixed the value of their stock at \$500 per share. This is not a par value as the stock by the articles of incorporation has no nominal or par value. In authorizing the issue of shares the Commission will consider that the actual worth of such shares is \$500 per share.

Applicant seeks to issue 83 shares of stock. This represents a total stated value of \$41,500. An analysis prepared by the Commission's Finance and Accounts Division is as follows:

1. Complete Water System (Exhibit A, 3d Amendment) .....	\$27,666.32
2. Water Supply Contract .....	1,000.00
3. Proposed Additions .....	9,169.60
4. Current Assets (As of July 21, 1961)	918.00
5. Deferred Charges July 21, 1961 ....	321.26
6. Cash (Par. II, 3d Amendment) .....	2,424.82
Total .....	<u>41,500.00</u>

The proposal of applicant appears reasonable and will be authorized, with one modification.

First, the \$1,000 on line 2 of the above tabulation will not be allowed. In Exhibit D to the third amendment, it is stated that this is the minimum amount the Halls would have to pay to drill Well II, amortized over 20 years at 7 percent interest annually. Respecting this well, there is a contract attached as Exhibit F to the second amendment. In it the Halls agree to sell water through a meter, on a standby basis, to applicant at the rate of 15 cents per 100 cubic feet. This price can be negotiated every six months but may not go above 30 cents per 100 cubic feet. The period of agreement is 10 years with applicant having the option to extend it for a similar period. There is also an option to applicant to buy the well after 1973.

In the meantime the Halls will continue to use the water from Well II in agricultural operations and will sell water to the utility when the latter needs it. Obviously this is an asset of the

Halls and not of the utility. Only 81 shares (\$40,500) will be authorized.

The Commission finds that:

1. Public convenience and necessity will require public utility water service in the area shown on Exhibit F attached to the first amendment to the application, also described as Parcel 72 of Rancho Posa de Los Ositos, containing approximately 90 acres.

2. Applicant possesses the financial resources to construct and operate the proposed water system.

3. The rates attached to the following order are fair and reasonable for the service to be rendered.

4. Applicant has obtained a permit, dated October 24, 1960, for this water system from the Director of Public Health of Monterey County.

5. Applicant's water supply and distribution facilities will provide reasonable service for the area certificated herein and meet the minimum requirements of General Order No. 103.

6. The money, property or labor to be procured or paid for by the issuance of stock herein authorized is reasonably required for the purposes specified and such purposes are not in whole or in part reasonably chargeable to operating expenses or to income.

7. Applicant's request for a service establishment charge of \$10 per customer is unreasonable and will not be authorized.

The Commission concludes that the application should be granted as set forth in the following order.

Applicant is placed on notice that:

1. 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.

2. We do not regard the number of shares outstanding, the total stated value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant, and 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 Little Bear Water Company, Inc., a corporation, authorizing it to construct and operate a public utility water system to serve the area described in Finding No. 1 herein.

2. Within one year 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 in accordance with the requirements of 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. Within ten days after the date service is first furnished to the public under the rates and rules authorized herein, applicant shall so notify this Commission in writing.

4. 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.

5. Beginning with the year 1963, applicant shall determine depreciation accruals by multiplying the depreciable 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.

6. If the authorization herein granted is exercised, applicant shall expressly dedicate to public utility purposes the land, parcels or areas on which the wells, pumps, tanks and related water facilities are located, and any easements or permits where water mains are located, otherwise than in streets dedicated to public use.

7. Applicant, for the purposes herein set forth, may issue not to exceed 81 shares of its no par value common capital stock.

8. 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.



9. The authority granted 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 3<sup>rd</sup> day of DECEMBER, 1963.

William W. Bennett  
President

John E. [unclear]

George H. Grover

Fredrick B. Halbluff  
Commissioners

## APPENDIX A

## Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Pine Canyon, and vicinity, located 3 miles southwest of King City, Monterey County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 600 cu.ft. or less .....	\$ 4.00
Next 600 cu.ft., per 100 cu.ft. ....	.45
Next 1,200 cu.ft., per 100 cu.ft. ....	.35
Over 2,400 cu.ft., per 100 cu.ft. ....	.25

## Minimum Charge:

For 5/8 x 3/4-inch meter .....	\$ 4.00
For 3/4-inch meter .....	5.35
For 1-inch meter .....	8.10
For 1 1/2-inch meter .....	13.40
For 2-inch meter .....	18.40
For 3-inch meter .....	30.90
For 4-inch meter .....	48.40

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