

ORIGINALDecision No. 67598

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of MORRO VIEW WATER COMPANY, INC., a California corporation, for a certificate of public convenience and necessity to operate a public utilities water system and to establish rates for water service in an area described as Tract No. 306, San Luis Obispo County, California under Section 1001, et seq., of the Public Utilities Code of the State of California, and for a permit to issue capital stock of applicant corporation.

Application No. 46202
(Filed February 17, 1964)
(Amended April 8, 1964)

O P I N I O N

Applicant has requested a certificate of public convenience and necessity to construct and operate a public utility water system in San Luis Obispo County. Authority to issue stock is also requested. An engineer of the Hydraulic Branch of the Commission's Utilities Division made a field investigation. A copy of his report, dated June 18, 1964, will be designated Exhibit No. 1.

Both applicant and the developer (Morro View Company, Inc.) are owned by Earl G. Rodman, Jr., of Odessa, Texas and his wife. The Rodmans do not presently own or operate any public utility water system in California.

The area for which a certificate is requested is known as Cabrillo Estates, Tract No. 306, and is located within portions of Section 24, Township 30 South, Range 10 East, M.D.B.&M., San Luis Obispo County. It includes about 50 acres divided into 136 lots and is located about one mile south of the community of Baywood Park and about four miles south of Morro Bay. Lots average about

11,000 square feet in area. They are to be sold, without houses constructed thereon, to individual buyers. When the majority of the lots in Tract No. 306 are sold, the developer anticipates further residential subdivision of surrounding property, totaling about 300 acres, which it owns or controls. The developer's property ranges from approximately 150 feet above sea level in the north to 800 feet in the south. Tract No. 306 ranges from approximately 300 feet to 600 feet in elevation.

The water system closest to this tract is that of Los Osos Valley Water Company, a public utility water system under the jurisdiction of this Commission. It is approximately one half mile away from the initial area to be served. The developer of Tract No. 306 originally requested service from Los Osos Valley Water Company, but because of the inability or unwillingness of this company to extend service to this area, applicant corporation was formed. A small mutual water company also operates nearby but was not capable of extending service to the area.

A 16-inch diameter well, located about 1,000 feet northwest of Tract No. 306, was drilled to a depth of 500 feet. It was test pumped for a period of 27 hours at a rate of 540 gallons per minute. Applicant plans to install a deep-well turbine pump with capacity of 300 gallons per minute, directly connected to a 60 hp electric motor. This unit is to be designed to deliver 300 gallons per minute into a 21,000-gallon galvanized steel storage tank located at the well site, at an elevation of 175 feet above sea level. Two booster pumps with a rated capacity of 300 gpm each

will be installed to pump the water about 4,000 feet to an 84,000-gallon steel tank located at the south edge of the tract. The bottom of the tank will be at an elevation of 650 feet. Water service within the tract will then be furnished primarily on a gravity flow basis from storage. A chlorinator system required by the County of San Luis Obispo will be installed at the well site.

The water supply requirement for Tract No. 306, when fully built up, is estimated to be about 250 gallons per minute. The maximum daily demand is anticipated to be about 40,000 gallons per day. Average usage is estimated to be considerably less. It appears that the proposed 84,000-gallon storage tank will be of sufficient size to provide water for several days' average consumption in the event the one initial well may be temporarily out of service for repairs, maintenance, or reasons beyond the control of the system operator. As additional units of subdivision are developed and additional customers are served, a second well source should be provided. Applicant's representative indicated that future plans include an additional well.

The distribution system as planned will consist of about 5,100 feet of 8-inch, 5,200 feet of 6-inch, and 1,400 feet of 4-inch Class 150 asbestos-cement pipe, laid in streets within the area to be developed. The majority of the service connections to be installed in the area will consist of 1-inch copper pipe, extending from the distribution main to the property line, branching to two 3/4-inch services, one to a lot. Some single services will be required. Elevations within the area to be served are such that a few lots at the lowest elevations will require pressure reducers to be installed on the services. These will be set to limit the

maximum pressure to that set forth in the Commission's General Order No. 103. The pressure reducers will be supplied by the applicant.

Applicant's estimated cost of utility plant with one well will be \$110,503.

The estimated utility plant cost of over \$800 per customer is considered to be quite high when compared with other recently constructed systems. However, it appears that many of the facilities being installed are of ample capacity and size to serve many more customers than will initially be served in Tract No. 306. When additional customers are connected to presently proposed facilities, with relatively small increase in utility plant, it is anticipated that the cost per customer will be reduced considerably. Correspondingly, the rate of return is expected to increase as facilities are added in future tracts in accordance with the main extension rule.

Applicant has made application to the County of San Luis Obispo for a water supply permit.

It is proposed to issue 1,105 shares of common stock, with a par value of \$100 per share, for plant facilities and working cash, in the amount of \$110,503.

Attached to the application is an agreement wherein the developer guarantees to pay the water company for any net operating loss for a period of 25 years. A financial statement of developer attached to the amendment to the application indicates sufficient financial resources to meet such losses, if necessary.

Applicant requests that the following schedule of meter rates be established:

| Quantity Rates: | <u>Per Meter</u> <u>Per Month</u> |
|--|--------------------------------------|
| First 600 cu.ft. or less | \$ 4.25 |
| Next 1,400 cu.ft., per 100 cu.ft. | .20 |
| Next 2,000 cu.ft., per 100 cu.ft. | .16 |
| Over 4,000 cu.ft., per 100 cu.ft. | .12 |

Minimum Charge:

| | |
|--------------------------------|---------|
| For 5/8 x 3/4-inch meter | \$ 4.25 |
| For 3/4-inch meter | 4.50 |
| For 1-inch meter | 5.75 |
| For 1½-inch meter | 8.00 |
| For 2-inch meter | 16.00 |

Applicant has also requested that a flat rate of \$7.00 per single-family residence, including premises not exceeding 10,000 square feet in area be established, with an additional charge of 3 cents for each additional 100 square feet of area per month. Applicant expects to furnish service primarily on a flat rate basis while the area is under development.

It appears that the schedule of flat rates requested is too high when compared with the meter minimum for a 5/8 x 3/4-inch meter. The \$7.00 flat rate requested would be equivalent to 2,000 cubic feet of water per month under the proposed metered rates. It is expected that the average residential customer in this area may use considerably less water; therefore, the flat rate should be correspondingly less. Based upon an average annual use of 1,200 cubic feet per month, a rate of \$5.50 per month appears reasonable for a lot up to 12,000 square feet in area.

A request for a fire hydrant rate has not been made, although fire hydrants are being installed within the area to be served. A rate of \$3.00 per hydrant per month will be established.

A summary of applicant's estimate of revenues and expenses upon complete occupancy of the tract and estimated rate of return is shown below:

| | |
|--|------------|
| Operating Revenues (\$7 x 12 months x 136 lots) | \$11,424 |
| <u>Expenses, Depreciation and Taxes</u> | |
| Operating and Maintenance Expenses | 3,060 |
| Depreciation (2.4% of \$109,028) | 2,617 |
| Ad Valorem Taxes | 1,250 |
| State Income Tax | <u>250</u> |
| Total Expenses, Depreciation and Taxes | 7,177 |
| Net Revenue | 4,247 |
| Rate of Return (On \$110,503) | 3.8% |

The recommended monthly flat rate of \$5.50 per month is estimated to produce \$8,976 in gross revenues upon development of Tract No. 306. Further growth in the area with consequent full utilization of the facilities being installed will eventually result in a reasonable return on the proposed investment in utility plant.

Applicant's proposed composite depreciation rate of 2.4 percent appears to be reasonable to be applied to this system, and should be applied to all depreciable properties within the proposed system until review indicates a change.

The Commission finds that:

1. Public convenience and necessity require that the application should be granted as set forth in the following order.
2. Applicant possesses the financial resources to construct and operate the proposed system.
3. The rates set forth in Appendix A attached hereto are fair and reasonable for the proposed service.

4. Applicant's proposed system will provide reasonable service for the proposed certificated area and meet the minimum requirements of General Order No. 103.

5. The water supply will meet the requirements of General Order No. 103 in the immediate future.

6. A water supply permit has been applied for, but not obtained, from the Public Health Department of San Luis Obispo County.

7. A composite depreciation rate of 2.4 percent is reasonable for this system.

8. 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.

The Commission concludes that the application should be granted as provided by the following order.

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.

The action taken herein is for the issuance of a certificate of public convenience and necessity only and is not to be considered as indicative of amounts to be included in proceedings for the purpose of determining just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. A certificate of public convenience and necessity is granted to Morro View Water Company, Inc., authorizing it to construct and operate a public utility water system to serve Tract No. 306, San Luis Obispo County.
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 acceptable to this Commission and in accordance with the requirements of General Order No. 96-A. After having been so filed, such tariff sheets shall become effective on the fourth day after the date of filing.
3. Compliance by applicant with paragraph 2 of this order shall constitute acceptance by it of the right and obligation to furnish public utility water service within the area certificated herein. The authority granted herein shall expire unless the designated tariff sheets are filed within one year after the effective date of this order.
4. Within ten days after the date service is first rendered to the public under the authority granted herein, applicant shall submit written notice thereof to this Commission.
5. Within sixty days after the system is first placed in operation under the authority granted 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 properties related to applicant's water system certificated herein.

6. Beginning with the year 1964, applicant shall determine depreciation accruals by multiplying the depreciable utility plant by a rate of 2.4 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. Applicant, for the purposes herein set forth, may issue not to exceed 1,105 shares of its \$100 par value per share capital stock at par.

8. Applicant shall file with this Commission a report or reports as required by General Order No. 24-B, which order insofar as applicable is hereby made a part of this order.

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

Dated at San Francisco, California, this 28th day of JULY, 1964.

Frederick B. Holloff
President
Walter B. Smith
George W. Rogers
George F. Crow
William B. Bennett
Commissioners

APPENDIX A
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Schedule No. 2

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tract No. 306, located about four miles south of the community of Morro Bay, and vicinity, San Luis Obispo County.

RATES

| | <u>Per Meter</u> <u>Per Month</u> |
|--|--------------------------------------|
| Quantity Rates: | |
| First 600 cu.ft. or less | \$ 4.25 |
| Next 1,400 cu.ft., per 100 cu.ft..... | .20 |
| Next 2,000 cu.ft., per 100 cu.ft. | .16 |
| Over 4,000 cu.ft., per 100 cu.ft. | .12 |

Minimum Charge:

| | |
|--------------------------------|---------|
| For 5/8 x 3/4-inch meter | \$ 4.25 |
| For 3/4-inch meter | 4.50 |
| For 1-inch meter | 5.75 |
| For 1 1/2-inch meter | 8.00 |
| For 2-inch meter | 16.00 |

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

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Tract No. 306, located about four miles south of the community of Morro Bay, and vicinity, San Luis Obispo County.

RATES

| | <u>Per Service Connection</u> <u>Per Month</u> |
|--|---|
| For a single-family residential unit, including premises not exceeding 12,000 sq.ft. in area | \$ 5.50 |
| For each 100 sq.ft. of premises in excess of 12,000 sq.ft. | .03 |

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 or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized fire districts and other political subdivisions of the State.

TERRITORY

Tract No. 306, located about four miles south of the community of Morro Bay, and vicinity, San Luis Obispo County.

RATE

Per Month

For each hydrant \$ 3.00

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges shall be made at the quantity rates under Schedule No. 1, General Metered Service.

2. The cost of installation and maintenance of hydrants shall be borne by the utility.

3. Relocation of any hydrant shall be at the expense of the party requesting relocation.

4. Fire hydrants shall be attached to the utility's distribution mains upon receipt of proper authorization from the appropriate public authority. Such authorization shall designate the ownership, type and the size of hydrant and the specific location at which each is to be installed.

5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.