

ORIGINAL

Decision No. 68604

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SQUIRREL MOUNTAIN WATER COMPANY, a)
California corporation, for a)
CERTIFICATE OF PUBLIC CONVENIENCE and)
NECESSITY to OPERATE a PUBLIC UTILITY)
WATER SYSTEM.)

Application No. 46572
(Filed April 17, 1964)
(Amended August 27, 1964)

Jack E. Lund, for Squirrel Mountain Water
Company, applicant.

Arthur C. Fegan and Hal H. Webster, for the
Commission staff.

O P I N I O N

This application was heard before Examiner Fraser at San Francisco on November 19, 1964, and was submitted on December 7, 1964, the date on which a soil resistivity report was submitted by the applicant.

Copies of the application and the notice of hearing were served in accordance with the Commission's procedural rules. There are no protests.

The application filed on April 17, 1964, as supplemented by an amendment of August 27, 1964 requests a certificate of public convenience and necessity to operate as a public utility water system and serve domestic users of water within Tracts Nos. 2074, 2103 and 2542 (being a portion of Section 35, Township 26 South, Range 33 East, M.D.B. & M.) in Kern County, California, as shown on the map, designated as Exhibit "B" attached to the application as amended.

Applicant requests authority to issue to A. Leggio and Sons, (Leggio), a limited partnership, 9,502 shares of capital stock in return for all of the real and personal property contributed to the applicant and to issue an additional 50 shares of capital stock to

Leggio in return for \$500 cash to be used as working capital.

A Commission staff financial examiner and a staff utilities engineer made an investigation of the proposed service area and existing facilities in May, 1964 and prepared a report which was received in evidence as Exhibit No. 3. The staff exhibit contains all of the essential information on the ownership, service area, water system, distribution facilities, plant costs, rates and results of operation. This information is summarized below.

Service Area

The area for which a certificate is requested includes Squirrel Mountain Valley Subdivision Tracts Nos. 2074, 2103 and 2542. It is located in a portion of Section 35, Township 26 South, Range 33 East, M.D.B. & M., in the Sierra Nevada Mountains, near the south fork area of Isabella Lake, about 40 miles northeast of Bakersfield, in Kern County. The terrain slopes from an elevation of 3,075 feet above sea level in the southwestern corner to 2,750 feet in the northern end. The tracts include about 450 acres, subdivided into 162 lots. Each lot contains about 2½ acres and, in accordance with county regulations, can be subdivided further into parcels of not less than 30,000 square feet, or three parcels for each 2½ acre lot. On this basis, the number of premises needing water service could increase to a possible 480. Applicant is presently serving 32 customers, 20 in Tract No. 2074, 11 in Tract No. 2103 and one in Tract No. 2542.

Water Production Facilities

The proposed source of water supply consists of two springs and two wells. One spring and both wells are connected to the system. The two springs are within 100 feet of each other. They are located 4,900 feet southeast of the requested area at an elevation of about 3,350 feet and have a combined flow of 25 gpm. Applicant's engineer

states that this flow could be increased to 65 gpm by installing a pump on an existing well casing located nearby. The spring water flows by gravity through 1,525 feet of 3½-inch steel pipe to a 42,000-gallon storage tank at an elevation of 3,257 feet. Well No. 3 is 8 inches in diameter and 640 feet in depth. It is located at the southeast corner of the requested area. It is equipped with a 10-hp submersible pump and can deliver 30 gpm into the system.

Storage consists of the 42,000-gallon steel tank, and four 10,000-gallon redwood tanks located at the southwest corner of the requested area at an elevation of 3,150 feet.

Applicant made application on April 13, 1964 to the California Department of Public Health for a water supply permit.

Water Supply Requirement

The presently available water supply of 62 gpm and storage of 82,000 gallons is adequate to serve 150 metered customers. Without increasing the water production, an additional 10 customers could be supplied by the addition of 20,000 gallons of suitable storage. Increasing production of the present sources of water supply to 122 gpm (which applicant's engineer states is possible) and increasing total storage to 200,000 gallons would provide an adequate supply of water for 320 customers.

Transmission and Distribution Facilities

Lying on the surface of the ground are 1,525 feet of 3½ O.D., ½-inch wall thickness, welded steel, uncoated, unwrapped pipe carrying the spring flow to the steel storage tank, and 3,751 feet of the same kind of pipe connecting the tank to the distribution system. The pipe is salvaged military rocket tubing which applicant's representative states is in a temporary location and is to be relocated when street locations in future subdivisions and land

developments are determined. The distribution system is completely circulating and consists of 11,350 feet of 2-inch galvanized pipe, 15,130 feet of 4-inch Class 150 asbestos-cement pipe, 640 feet of 4-inch and 635 feet of 6-inch Class 100 asbestos-cement pipe, 12,600 feet of 4-inch and 2,200 of 6-inch 14-gauge steel cement-mortar lined, dipped and wrapped pipe. The distribution facilities were installed in the following years: Tract No. 2074 in 1958, Tract No. 2103 in 1959 and Tract No. 2542 in 1962.

Utility Plant Cost

A staff financial examiner analyzed the records of Leggio to ascertain its investment in plant and a staff engineer determined the reserve requirement, both as of July 1, 1964. The results are summarized below:

<u>Plant Account</u>	<u>Gross Plant</u>	<u>Reserve Requirement</u>	<u>Net Plant</u>
301 Intangible Plant	\$ 500.00	\$ -	\$ 500.00
306 Land	346.43	-	346.43
312 Source of Supply	1,699.01	118.79	1,580.22
315 Wells	10,182.84	1,846.39	8,336.45
324 Pumping Equipment	4,153.97	504.77	3,649.20
342 Reservoirs and Tanks	7,170.38	940.18	6,230.20
343 Trans. & Distr. Mains	66,691.38	6,693.00	59,998.38
345 Services	2,208.46	348.56	1,859.90
346 Meters	1,301.05	81.14	1,219.91
347 Hydrants	775.62	85.06	690.56
Total	\$ 95,029.14	\$10,617.89	\$84,411.25

The annual depreciation accrual determined in the staff's depreciation study is 2.4 per cent of gross depreciable plant based on the straight-line remaining life method.

Rates

Applicant's proposed rates for metered service are as follows:

Monthly Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 900 cu.ft. or less	\$ 3.00
Over 900 cu.ft., per 100 cu.ft.	.40
 Monthly Minimum Charge:	
For 5/8 x 3/4-inch meter	3.00
For 3/4-inch meter	5.00
For 1-inch meter	7.00
For 1 1/2-inch meter	11.00
For 2-inch meter	17.00

The staff engineer recommended that monthly minimum charges for 1, 1-1/2, and 2-inch meters be increased to \$9, \$18, and \$30, respectively, commensurate with the monthly minimum charges for the smaller meters. The staff further recommended that the authorization to issue stock be limited to 8,441 shares, which is based on the value (\$84,411) of the depreciated plant.

Results of Operation

Applicant has estimated operating expenses for the year 1965 with 50 customers to be \$2,060, excluding depreciation. The staff estimates that expenses will exceed revenues derived from the proposed rates for an undetermined future period. The additional investment required, the time when full development can be expected, and the number of customers to be served, are not known; therefore, it appears that a realistic estimate of results of operation cannot be made at this time.

Applicant's Evidence

The secretary-treasurer of the applicant testified as follows: Leggio owns the area to be served by applicant and other adjoining land; Leggio started to develop the area in 1958; the lots could not be sold without water so Leggio installed a water system which is now serving the customers living in the three tracts; there

were as of November 19, 1964, 32 customers being served and 8 more expected to be connected to the system within ninety days, as soon as their houses are ready; Leggio estimates that only about ten new customers will be connected each year; this estimate is predicated on the number of yearly connections during the past few years and the fact that the buyers purchase and pay for the lot before they start to build; the tracts will contain only one- or two-bedroom, one-bath homes of 600 to 2000 square feet in area; each house will have its own septic tank for sewage disposal; there will be no business or commercial installations; the area has about 50 percent permanent residents and 50 percent week-end and summer residents; the three tracts contain a total of 162 lots and each lot could be subdivided into a maximum of three smaller lots under local ordinances, but this will not happen in the foreseeable future; the present water supply has been estimated to be adequate for as many as 175 connections, depending on the number of constant users and the length of service lines; when all three tracts are sold out Leggio will expand the water service and subdivide and sell the adjoining land; Leggio is operating the water company now and will absorb any losses suffered by the utility; Leggio has been advised that the water company may operate at a nominal loss during 1965 but should start showing a profit in 1966; wherever necessary, any wells, water tank sites, or land necessary to operate the water system will be deeded to the utility; fire hydrants have already been installed on the system and the utility favors a flat rate on the hydrants, although there is no one to bill for fire protection as yet; Leggio is hopeful that a fire district will be organized or the county will become responsible for fire protection; after the entire area has been sold, Leggio will also sell the stock of the utility since it does not plan to

operate a utility any longer than necessary; it is estimated that it will be a minimum of five years and probably a much longer period before the entire area is subdivided and sold; Leggio is a limited partnership composed of eight individuals and the estate of a former partner; the stock issue requested herein is to reimburse the partnership for the water company facilities and operating capital; the staff figures on plant costs and depreciation are accepted as true by Leggio and applicant.

Upon consideration of the evidence the Commission finds as follows:

1. Public convenience and necessity require that the application be granted as set forth in the ensuing order.
2. Applicant possesses the financial resources to construct and operate the proposed water system.
3. The money, property or labor to be procured or paid for by the issuance 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 authorization herein granted 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 future proceedings for the determination of just and reasonable rates.
4. The rates set forth in Appendix A attached hereto are fair and reasonable for the service to be rendered.
5. Applicant should obtain a water supply permit from the State Department of Public Health.
6. Applicant should serve no more than 150 customers until it has increased its water supply and storage facilities.
7. Within three years applicant should coat and bury its 3½-inch transmission main in accordance with General Order No. 103.

8. Within three years applicant should replace the 2-inch pipe which does not conform with the requirements of General Order No. 103.

9. Applicant should file tariffs which include rates for public fire hydrant service.

Based upon the above findings the Commission concludes that applicant should be granted the requested authorization as set forth in 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.

O R D E R

IT IS ORDERED that:

1. A certificate of public convenience and necessity is granted to Squirrel Mountain Water Company authorizing it to construct and operate a public utility water system for the distribution and sale of water within Tracts Nos. 2074, 2103 and 2542 in Kern County, California, shown on the map, designated as Exhibit "B", attached to the application as amended.

2. Applicant, on or after the effective date hereof and on or before December 31, 1965, may issue not to exceed 8,441 shares of its common stock, at a par value of \$10 per share, in return for all the real and personal property specified in this proceeding, and may issue an additional 50 shares of capital stock in return for \$500 in cash to be used by applicant as working capital.

3. Applicant shall file with the 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.

4. Applicant is authorized and directed to file, within thirty days after the effective date hereof, in conformity with the Commission's General Order No. 96-A, and in a manner acceptable to the Commission, the schedule of rates shown in Appendix A attached hereto, together with rules governing service to customers and a tariff service area map and copies of printed forms used in connection with customers' services. Such rates, rules, tariff service area map and forms shall become effective four days after the date of filing.

5. Within sixty days after the effective date of this order, applicant shall file with this Commission two copies of a comprehensive map drawn to an indicated scale of not more than 400 feet to the inch, delineating by appropriate markings the tracts of land and territory served; the principal water supply, transmission, pressure, storage and distribution facilities; and the location of applicant's various water system properties.

6. Applicant shall serve not more than 150 customers until it has installed additional facilities to increase its source of water supplies and storage to provide for the reasonable continuation of an adequate supply of water for existing and future customers. Within thirty days after such additional facilities are installed, applicant shall file in this proceeding a written report showing the number of customers then served and the details of the manner in which the requirement of this paragraph has been accomplished. After receiving an acceptable report indicating an adequate water supply, the Commission may issue a supplemental order lifting this restriction.

7. Applicant shall not extend nor furnish water service outside of Tracts Nos. 2074, 2103 and 2542 without authority first having been obtained from this Commission.

8. Within ninety days after the effective date of this order, applicant shall file a report in writing setting forth a plan for replacement of all 2-inch pipe not conforming to the requirements of General Order No. 103, and shall file written reports each ninety days thereafter until completion of the replacement of those facilities.

9. Within three years after the effective date of this order, applicant shall cause the installation of the 3½-inch transmission main to conform with the requirements of General Order No. 103.

10. For the year 1964, applicant shall apply a depreciation rate of 2.4 percent to the original cost of depreciable plant. Until review indicates otherwise, applicant shall continue to use this rate. The utility shall review its depreciation rates at intervals of not longer than five years and whenever a major change in depreciable plant occurs. Any revised depreciation rate shall be determined by: (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the remainder by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

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

Dated at San Francisco, California, this 16th day of FEBRUARY, 1965.

Frederic B. Hallock President
George E. Hoover
William A. Beards
Commissioners

APPENDIX A
Sheet 1 of 2

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as Tracts Nos. 2074, 2103 and 2542, and vicinity, located approximately two miles east of Isabella, Kern County.

RATES

Quantity Rates:		<u>Per Meter</u> <u>Per Month</u>
First	900 cu.ft. or less	\$ 3.00
Over	900 cu.ft., per 100 cu.ft.40
Minimum Charge:		
For	5/8 x 3/4-inch meter	\$ 3.00
For	3/4-inch meter	5.00
For	1-inch meter	9.00
For	1 1/2-inch meter	18.00
For	2-inch meter	30.00

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

APPENDIX A
Sheet 2 of 2

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

The area known as Tracts Nos. 2074, 2103 and 2542, and vicinity, located approximately two miles east of Isabella, Kern County.

RATES

	<u>Per Month</u>
For each hydrant	\$ 2.00

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. Relocation of any hydrant shall be at the expense of the party requesting relocation.
3. 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 specific location at which each is to be installed.
4. 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.