

ORIGINAL

Decision No. 68660

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 RANCHO LAS POSAS WATER CO., a)
 corporation, (1) For authority to)
 Acquire, Construct and Operate a)
 Public Utility Water System)
 in Ventura County, California;)
 (2) For a Certificate of Public)
 Convenience and Necessity to)
 Operate a Public Utility Water)
 System in Ventura County,)
 California; (3) For Authority to)
 Issue Stocks and Stock Certificates)
 and Other Securities; (4) For)
 Authority to Establish Rates; (5))
 For Authority to Acquire Franchises.)

Application No. 45857
 (Filed October 10, 1963)

Farrand, Fisher & Farrand, by Ross C. Fisher and Douglas T. Foster, for Rancho Las Posas Water Co., applicant.
Joseph G. Leggett, for Village Water Company, interested party.
Jerry J. Levander and Kenji Tomita, for the Commission staff.

O P I N I O N

Public hearings on the above application were held before Examiner Rogers in Somis, California, on May 25, 26 and 27, 1964, and in Los Angeles on July 27 and September 21, 1964. On the latter date the matter was submitted subject to the filing of briefs. The briefs have been filed and the matter is ready for decision.

The application may be summarized as follows:

The applicant is Rancho Las Posas Water Co., a corporation, formed to replace the existing domestic water corporation, Las Posas Water Company (Las Posas).

Las Posas is a California corporation operating as a mutual water company and serving domestic water to its shareholders in the Rancho Las Posas area (Area) in Ventura County, California. Its stock is not appurtenant to the land, but its service area is restricted to serving shareholders in and adjacent to the Area in Ventura County.

Zone Mutual Water Company (Zone) is a California corporation operating as a mutual water company furnishing water for irrigation purposes to its shareholders in the Area. Its stock is not appurtenant to the land, but its service is restricted to its shareholders in the Area.

Berylwood Investment Company (Berylwood) is a California corporation owning land in, adjacent to and in the vicinity of the Area. It owns extensive acreage in the Area. It is a substantial shareholder of both Las Posas and Zone. Berylwood has caused applicant to be formed and proposes purchasing all shares of stock of applicant authorized by the Commission pursuant to this application. Applicant will be a wholly owned subsidiary of Berylwood.

Prior to the organization of applicant, but in anticipation thereof, Berylwood acquired from Las Posas an option (Exhibits 4 and 4A) assignable by Berylwood, to purchase from Las Posas all of its assets used in its domestic water distribution, including all wells, water and water rights of Las Posas within the Area, including those presently owned by Las Posas and/or which may be acquired by Las Posas from Zone or which may be otherwise acquired, all reservoirs, pumping plants and equipment, easements, pipes and pipelines, rights of way, franchises, meters and services, fire hydrants,

vehicles, machinery, inventories, and all other property owned by Las Posas and used in connection with its water distributing system, exclusive of cash, moneys in banks and accounts receivable, and exclusive of the lands of Las Posas not used in its water system operations. Zone claims an interest in Well No. 12 and the water developed therefrom located in the Area on lands owned by Berylwood. There is an understanding between Zone and Las Posas that Zone will deliver from Well No. 12, free of charge, up to 75 miner's inches of water to a reservoir of Las Posas in the Area. Zone and Las Posas desire to terminate said understanding by Zone conveying to Las Posas any interest it may have in Well No. 12 and the waters therefrom and the equipment and lines used in connection therewith in exchange for the termination of any obligation Zone may have to deliver water from said well to Las Posas. If the Commission grants this application, Berylwood will assign to applicant the option to purchase from Las Posas its water system and will cause applicant to exercise said option and purchase the water system, the transactions to be handled through an escrow with some bank or trust company to the end that the transactions contemplated under the arrangement would be effected through the escrow. The effect will be that upon the close of said escrow, applicant, as a wholly owned subsidiary of Berylwood, will become the owner of the water system of Las Posas and will thereafter operate it as a public utility water company under the jurisdiction of the Commission. After the sale of its system Las Posas will be dissolved.

While the territory served by Las Posas in the Area is primarily rural in character and devoted to agricultural purposes,

it is contemplated that it will be rapidly subdivided to residential, commercial and industrial uses, and it is anticipated that in the future it will become primarily urban in character, and that the needs of the area can be best served by a public utility water company rather than by a mutual water company. There is at present no public utility water company within the requested service area although Village Water Company is immediately contiguous thereto.

General Information

Applicant is a California corporation. Its articles of incorporation were filed with the Secretary of State on May 29, 1963. Its primary purpose is the sale and distribution of domestic water. It is authorized to issue only one class of stock. The total number of shares it is authorized to issue is 200,000 for an aggregate par value of \$2,000,000, each share having a stated par value of \$10. The original directors were Richard Bard, William F. Snow, Peter Lacques, Jack Kelly, and William S. Radford, all of Somis, California. At the time of the hearings herein, Richard Bard was president and general manager of the applicant, Peter Lacques was its vice president, and William S. Radford was the secretary.

Berylwood is a family corporation in which all stock is held by the Bard family group. The officers on May 12, 1964, were Richard Bard, president, Elizabeth Shand, vice president, William F. Snow, vice president, Peter Lacques, assistant to the president, William S. Radford, assistant secretary, and Winifred Fraser, assistant secretary. The directors of applicant on said date

included all of the officers of Berylwood, except Peter Lacques. Applicant requests authority to issue not to exceed 40,000 shares of its stock to Berylwood. Berylwood owned approximately 35 percent of the 15,400 shares of stock of Las Posas outstanding on December 31, 1963.

Service Area

The proposed service area comprises 17,462 acres of hilly land in and in the vicinity of the community of Somis, Ventura County, California. This area follows an elevation of 775 feet on the northern side and generally an elevation of 575 feet on the south, except for a distance bounded by Las Posas Road. Approximately 9,400 acres of this land are owned by Berylwood. The staff recommended that the certificated area be restricted to the territory in which the existing distribution system is located. This area is shown on a map, Exhibit 11. There are no competing public or private water suppliers in the proposed service area and applicant has no immediate plans to extend outside either the proposed or staff recommended area except, in either event, as would be permitted under Section 1001 of the Public Utilities Code referring to extensions to contiguous territory.

Village Water Company serves an area immediately contiguous to the southwest corner of applicant's proposed service area and appeared in opposition to any extension which would permit applicant to serve a subdivider (Brentwood Land and Sales, Inc.) which owns the so-called Evans Ranch which is in the southwest portion of applicant's proposed service area, but partly within and partly without the area recommended to be certificated by the staff.

The developer of the Evans Ranch has indicated a desire to be served by applicant (Exhibit 15). The record herein shows that there is no immediate plan to develop this area.

System and Sources of Supply

Applicant's business office and operating headquarters will be at Somis, California. Its principal source of supply is to be a deep well (No. 12) to be acquired from Zone which furnishes irrigation water. The well was drilled in 1949 to a depth of 1,297 feet. As of December 31, 1963, the power was furnished by a 150-hp electric motor directly connected to a deep-well turbine and producing 1,287 gallons of water per minute from a pumping level of 145 feet.

Water from Well No. 12 is pumped through a 10-inch line into a 200,000-gallon reservoir at an elevation of approximately 417 feet. Two booster pumps transfer this water from the original reservoir to a 600,000-gallon reservoir at an elevation of 715 feet. Water from this reservoir is distributed to the various parts of the service area. There are several small reservoirs in this system, including two 63,450-gallon reservoirs, one 56,650-gallon reservoir, and two 13,300-gallon reservoirs.

As a supplemental source of supply, applicant will acquire from Berylwood a well (No. 5) which was drilled to a depth of 1,289 feet in 1949. On December 31, 1963, this well had a 125-hp motor directly connected to a deep-well turbine and was producing 926 gallons of water per minute from a pumping level of 220 feet.

In addition to these sources of supply, the proposed service area is entirely within the Calleguas Municipal Water District and applicant will arrange for water therefrom to whatever extent necessary.

As of December 1, 1963, Las Posas had 318 customers, all of which were served through meters. The metering is unusual in

that the meters reflect gallons and consequently applicant's proposed rates are on a gallon basis.

Proposed Rates

Applicant's proposed rates are approximately the same as those of Las Posas now in existence and are as follows:

<u>Quantity</u>	<u>Per Meter Per Month</u>
First 8,000 gallons	Meter Minimum
Next 16,000 gallons, per 1,000 gallons	\$0.45
Next 76,000 gallons, per 1,000 gallons ....	.40
Next 100,000 gallons, per 1,000 gallons ....	.30
Over 200,000 gallons, per 1,000 gallons ....	.20

The staff recommended that the per gallon rates be converted to the following generally accepted cubic foot rates:

<u>Quantity</u>	<u>Per Meter Per Month</u>
First 1,100 cubic feet or less	\$5.00
Next 2,100 cubic feet, per 100 cu.ft. ....	.34
Next 10,300 cubic feet, per 100 cu.ft. ....	.30
Next 12,500 cubic feet, per 100 cu.ft. ....	.22
Over 26,000 cubic feet, per 100 cu.ft. ....	.15

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

Recording the Transaction

Las Posas is an existing mutual water company furnishing water to members in the proposed service area. The members have elected to sell the mutual and its tangible assets, other than cash on hand, and certain nonoperative pieces of land to Berylwood, which if the transaction is authorized, will transfer the system and related facilities to applicant. The cash price for the assets will be paid by Berylwood which, in turn, will receive the stock to be issued as permitted by the Commission and give applicant working cash. If there were an acquisition by one water corporation of the

assets of another in exchange for cash or capital stock, no particular problem would be presented. In this instance, however, we have a mutual company founded around the turn of the century and which, purportedly, has never placed its property in public use, selling its assets for cash and going out of business. A land development company is preparing to acquire the assets. In the next step, a new corporation, the applicant, will acquire the assets of the mutual, plus cash, in exchange for applicant's stock. The questions herein posed are: (1) whether such assets have been placed in public use, and (2) if so, whether to permit the valuation of the assets as of the date the parties determined to form a public utility water corporation, December 31, 1962, or as of the date the assets were first placed in such use by the mutual company.

The record herein reflects that Berylwood has, since 1911, owned at least 9,400 acres of the land requested to be included in the proposed service area, that it owns 34 percent of the outstanding stock of Las Posas and that it will own all of the stock of the applicant when issued. The president of Berylwood is the president of the applicant, and there are other persons who are officers and/or directors of both.

The property now used to furnish water to the existing and future consumers was the property used to furnish water to the original consumers, and the purpose of the transfer is, as stated by applicant's witnesses, to make financing easier in operating a water company for a large scale development.

The applicant originally presented its utility plant analysis based on the cost to it on December 31, 1962, the applicant's assumed date of dedication of the Las Posas assets to public utility service. The staff prepared Exhibit 10,¹ an appraisal

¹ Later revised by Exhibit 18, prepared by the staff on the same basis as Exhibit 10.

based on costs as of the dates of installation or acquisition of the facilities by the mutual. The applicant subsequently prepared an appraisal on the same basis, after an examination of the staff's report (Exhibit 10) and the staff's available work papers. Based thereon, the applicant presented Exhibit 12.

The following is a comparison of the staff's and applicant's figures for the original cost of utility plant as of December 31, 1962, together with the amounts adopted herein:

Comparison of Utility Plant
(As of December 31, 1962)

:Ac.:		: Exh. 18 :	: Exh. 12 :	:
:No.:	Description	: Staff	: Applicant:	: Adopted :
301	Intangible Plant	\$ 4,751	\$ 12,751*	\$ 4,751
306	Land and Land Rights	3,945	6,840	3,945
315	Wells	20,110	22,382	20,718
324	Pumping Equipment	26,648	33,990	27,440
342	Reservoirs and Tanks	63,694	52,784	65,604
343	Trans. and Distr. Mains	324,073	344,956	333,792
345	Services	12,758	9,642	13,140
346	Meters	15,814	11,657	15,814
348	Hydrants	5,180	5,513	5,336
371	General Strs. and Improvements	11,505	12,861	11,845
372	Office Furniture and Equipment	1,111	1,084	1,139
373	Transportation Equipment	3,439	3,584	3,538
376	Communications Equipment	1,153	1,183	1,195
377	Power Operating Equipment	1,523	1,600	1,565
378	Tools and Shop Equipment	801	794	829
	Total	496,505	521,621	510,261

* Added 1963 after pro forma acquisition on its books by applicant.

The following is a comparison of the related reserve requirements as of December 31, 1962:

Comparison of Depreciation Reserve Requirements
(As of December 31, 1962)

:Ac.:	Description	: Exh. 18:	Exh. 12 :	:
:No.:		: Staff	:Applicant:	:Adopted :
315	Wells	\$ 6,717	\$ 5,647	\$ 6,920
324	Pumping Equipment	6,582	7,663	6,778
342	Reservoirs and Tanks	30,201	18,906	31,106
343	Trans. and Distr. Mains	118,157	78,893	121,695
345	Services	5,537	1,890	5,703
346	Meters	3,490	2,923	3,490
348	Hydrants	855	377	881
371	General Strs. and Improvements	7,639	7,909	7,865
372	Office Furniture and Equipment	342	154	351
373	Transportation Equipment	1,327	1,050	1,365
376	Communications Equipment	160	152	166
377	Power Operating Equipment	443	550	455
378	Tools and Shop Equipment	278	206	288
	Total	181,728	126,320	187,063

In arriving at its plant figures, the applicant added assumed percentages for overheads (11.3% for all but meters and 5% for meters). In addition, there is some duplication of overheads in applicant's plant figures. Its depreciation reserve requirement figures were calculated using relatively long remaining lives.

The staff used actual overheads when these could be determined, and no overheads where the records reflect none were charged. The staff calculated its depreciation reserve requirement using shorter and, in our opinion, more appropriate lives.

The amounts for utility plant and depreciation reserve adopted herein represent the staff figures adjusted by adding estimated overheads where none were recorded.

The record herein is that the total depreciated original cost of the utility plant (including the 1963 additions of \$31,953 and deducting the 1963 depreciation accrual of \$10,228) was \$345,313 as of January 1, 1964. We will authorize the issuance of 40,000 shares of \$10 par value stock to cover the depreciated original cost of the utility plant and \$54,687 for subsequent plant additions and working cash.

Franchise

The applicant's predecessors have a franchise granted by the Board of Supervisors of Ventura County to maintain the domestic water system over, along, and under certain designated streets in said County. Inasmuch as such a franchise is necessary and is assignable, applicant will be authorized to acquire and exercise the rights, privileges and franchise granted by the existing franchise ordinance. This franchise appears to be incomplete and inadequate, however, and applicant is urged to acquire a complete franchise in its own name.

Health Permit

The Department of Public Health of the State of California has advised that a health permit for the system to be acquired has been applied for. When and if this health permit is issued, a copy should be filed with this Commission.

Staff Recommendations

The staff recommended, among other things, that applicant file a fire hydrant tariff; that it follow the provisions of Decision No. 64536, dated November 8, 1962, in Case No. 5501, relating to main extensions; that it institute a program for routine testing of customers' meters; that it institute a program for inspection and

enforcement of regulations relating to cross connections; that the requested service area be reduced in conformance with the staff's suggestions; and that the rates for general metered service be for quantities in cubic feet. These recommendations, among others, are found to be reasonable and will be included in the order herein.

Findings

Upon consideration of the evidence, the Commission finds that:

1. Applicant is a California corporation whose articles of incorporation authorize it to acquire and operate a domestic water corporation in Ventura County, California, and to issue shares of stock aggregating \$2,000,000 par value.

2. When applicant secures a certificate of public convenience and necessity from the Commission, its parent corporation, Berylwood Investment Company, will purchase up to \$400,000 aggregate par value of applicant's stock; the proceeds of such stock issue will be used to acquire an existing water system in Ventura County and to provide working cash.

3. Public convenience and necessity require that applicant furnish water as a public utility water corporation to the area served by the existing water system owned by Las Posas Water Company, which area embraces approximately 9,400 acres and is depicted on Exhibit 11 herein, subject to the limitations and conditions contained in the order herein.

4. Public convenience and necessity do not require that applicant be authorized to serve the balance of the total of

approximately 17,462 acres applicant has requested authority to serve.

5. The assets of the mutual which applicant proposes to acquire were placed in public use at the time they were installed or acquired by the mutual.

6. Applicant should base the original cost of its utility plant on the cost to the mutual as of the time the facilities were first placed in public use by the mutual. The staff figures for utility plant and depreciation reserve requirement, as shown in Exhibit 18 and as modified hereinabove, reasonably represent such original cost as nearly as may be ascertained.

7. Rates proposed by the applicant as revised by the staff are fair and reasonable for the service to be rendered, and applicant should file fire hydrant rates in addition thereto.

8. Applicant should base the value of its utility plant on the original cost thereof.

9. Applicant should be authorized to issue 40,000 shares of its common stock at par value net to applicant in the face amount of \$400,000 to Berylwood Investment Company in exchange for cash which shall be used to pay for the Las Posas Water Company facility acquired.

10. Public convenience and necessity require that applicant exercise the rights, privileges and franchise granted by Ventura County Ordinance No. 244, dated January 17, 1927.

11. 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 such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

12. Except to the extent herein granted, the application should be denied.

Based on the foregoing findings, the Commission concludes that applicant's requests should be granted to the extent set forth in the order herein, and that in all other respects the application should be denied.

The certificates of public convenience and necessity issued herein shall be subject to the following provision of law:

The Commission shall have no power to authorize the capitalization of the franchise involved herein or the certificates of public convenience and necessity or the right to own, operate or enjoy such franchise or certificates of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State, or a political subdivision thereof, as the consideration for issuance of such franchise, certificates of public convenience and necessity, or rights.

O R D E R

IT IS ORDERED that:

1. Rancho Las Posas Water Co., a corporation, is granted a certificate of public convenience and necessity to extend, construct and operate a public utility water system in that portion of Ventura County, State of California, known as Rancho Las Posas, comprising 9,400 acres, more or less, which area is depicted on Exhibit 11 herein.

2. Applicant is authorized to file with the Commission before the commencement of service and to be effective on or before service

is first rendered to the public under the authority herein granted and in conformance with the Commission's General Order No. 96-A the schedules of rates shown in Appendix A attached hereto. Such filing shall become effective on the fourth day after the date of filing.

3. Applicant shall notify the Commission, in writing, of the date service is first rendered to the public under the rates and rules authorized herein within ten days thereafter.

4. Applicant, after the effective date of this order, is authorized to issue not to exceed 40,000 shares of its capital stock for an aggregate par value of \$400,000, as specified in the opinion and findings herein, to Berylwood Investment Company.

5. Applicant is granted a certificate of public convenience and necessity to exercise the rights, privileges and franchise granted by Ordinance No. 244 of the County of Ventura, State of California.

6. Applicant shall determine accruals for depreciation by dividing the original cost of utility plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the plant. Applicant shall review accruals when major changes in utility plant composition occur and for each plant account at intervals of not more than five years.

7. Applicant shall file, in conformity with General Order No. 96-A, a public fire hydrant tariff schedule setting forth the basis of such service.

8. Extensions of mains shall be made by following provisions of the Main Extension Rule as set forth in Decision No. 64536, dated November 8, 1962, in Case No. 5501.

9. Within forty-five days after the effective date of the order in this proceeding, applicant shall file with the Commission,

in conformity with General Order No. 96-A, and in a manner acceptable to the Commission, rules governing service to customers, a tariff service area map, and copies of printed forms normally used in connection with customers' services. Such rules, tariff service area map and forms should become effective upon five days' notice to the Commission and to the public after filing.

10. Within sixty days after the effective date of the order in this proceeding, applicant shall file with the Commission 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 various tracts of land and territory served; the principal water production, storage, and distribution facilities, and the location of the various water system properties of applicant.

11. Applicant shall institute a program for routine testing of customers' meters in accordance with the provisions of General Order No. 103.

12. Applicant shall institute a program for inspection and enforcement of regulations relating to cross connections.

13. Compliance by applicant with paragraph 2 of this order shall constitute acceptance by it of the right and obligation to furnish public utility water services to the area certificated herein. The authorities granted herein shall expire unless the designated tariffs are filed within one year after the effective date of this order.

14. Rancho Las Posas Water Co. shall file with the Commission a report or reports as required by General Order No. 24-B, which order, insofar as applicable, is made a part of this order.

15. Except as granted herein, Application No. 45857 is denied.
The effective date of this order shall be twenty days
after the date hereof.

Dated at San Francisco, California, this 24th
day of FEBRUARY, 1965.

Frederick B. Hallock
President
John E. Mitchell
George E. Brown
Walter
William W. Bennett
Commissioners

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Somis and vicinity, Ventura County.

RATES

Per Meter
Per Month

Quantity Rates:

First	1,100 cu.ft. or less	\$ 5.00
Next	2,100 cu.ft., per 100 cu.ft. ....	.34
Next	10,300 cu.ft., per 100 cu.ft. ....	.30
Next	12,500 cu.ft., per 100 cu.ft. ....	.22
Over	26,000 cu.ft., per 100 cu.ft. ....	.15

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 5.00
For	3/4-inch meter	6.50
For	1-inch meter	8.00
For	1 1/2-inch meter	11.00
For	2-inch meter	15.00
For	4-inch meter	26.00

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

Schedule No. 9M

SPECIAL METERED SERVICE

APPLICABILITY

Applicable to all users of construction or spray water from special metered services.

TERRITORY

Somis and vicinity, Ventura County.

RATES

Per Meter
Per Month

Per 1,000 gallons \$0.50

SPECIAL CONDITIONS

1. Bills shall be rendered monthly as part of the regular billing procedure.
2. Users shall apply at office of the utility prior to use of service for permit authorizing use.
3. Water shall be delivered only to customer-owned containers.