

ORIGINAL

Decision No. 69419

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
POMONA VALLEY WATER COMPANY, a
California corporation, for issuance
of securities and for certificate of
public convenience and necessity.

Application No. 46912
(Filed August 19, 1964;
Amended January 6, 1965)

Maroney and Garner, by D. E. Maroney, for applicant.
Charles L. Stuart, for Southern California Water
Company; Nico Jan Van Slooten and Paul R. Deutsch,
for Carbon Canyon Community Services District,
interested parties.
Raymond E. Heytens and Jerry J. Levander, for the
Commission staff.

O P I N I O N

Public hearings on the above-entitled application were held before Examiner Rogers in Los Angeles, California, on March 25 and 26, 1965. At the conclusion of the hearings the matter was submitted subject to the filing of exhibits and briefs. These have been filed and the matter is ready for decision.

The application requests authority to issue stock in exchange for the water system assets of the Rolling Ridge Ranch (Ranch); to extend service to approximately 1,100 acres; to establish rates for irrigation service; to assume the obligations of a contract for the furnishing of water to a golf course; and to exercise a franchise.

General Information

Pomona Valley Water Company (applicant) is a California corporation, having its principal place of business in Chino, California. Its articles of incorporation were filed with this

Commission in Application No. 33189 (infra). An amendment to the articles was filed with the Secretary of State of California on July 16, 1964. This amendment increases the number of authorized shares of stock from 2,500 to 100,000 shares of no par value common stock.

By Decision No. 46881, dated March 25, 1952, in Application No. 33189, applicant was authorized to issue 1,000 shares of stock to Clara B. Bartlett in exchange for the water system she conducted under the name of Pomona Valley Water Company, and the corporation assumed the liabilities of the system. The 1,000 shares are all of the issued stock of applicant and are now a part of the Estate of Paul Greening, deceased.

Paul Greening left two sons, Jack W. Greening and Robert Greening, and his widow Estella Greening. The estate is to be distributed one-half to the widow and one-half to the sons as co-trustees of a testamentary trust set forth in the will. Applicant requests that the Commission authorize it to issue to the distributees of the estate 9,347 shares of its authorized no par value common stock in exchange for the water system assets of Ranch valued at \$345,863. Ranch distributes irrigation water (with some combination irrigation-domestic users) and is owned by the estate. Applicant also requests that its certificated area be increased to approximately 2,800 acres, which will include the area served by Ranch.

Service Area

Prior to 1964, the tariff service area of applicant consisted of approximately 300 acres. In 1964, applicant extended its tariff service area to approximately 1,400 acres by filing a tariff service area map (Exhibit 3). Elevations in the tariff service

area range from 600 feet in the southeast portion to 1,450 feet in the southwest portion. As of December 31, 1964, all service therein was below 725 feet. In the requested areas, which total approximately 1,100 acres, elevations range from 580 feet to 900 feet.

The development in the tariff service area (Exhibit 1-A) includes Tracts Nos. 7280 and 7046, both of which are now being served by applicant; Tract No. 7501, a tentative tract, which is to be developed in the near future; Tract No. 7363, on which work will commence in the near future; and Tract No. 7364, which is to be developed within one year. In the southwest corner of the service area is an area known as Anazeh Ranch, which is agricultural and is served through a meter on Tract No. 7364.

There are two golf courses south of the tariff service area but in the proposed area (Los Serranos Golf Club). The first course was developed in 1924. The second was developed in 1964. Both are served by Ranch. In the southwest portion of the proposed service area and contiguous to the golf courses, residential units are to be constructed. North of the tariff service area of applicant in the proposed service area there are dairies and horse ranches, some of which are being served by Ranch and some of which have requested service therefrom. These areas will eventually become residential areas. Applicant is serving no customers at Ranch. Ranch serves approximately 23 irrigation customers and 7 domestic customers.

On December 31, 1964, applicant was providing water service to approximately 900 acres of its 1,700-acre tariff service area and had approximately 603 customers therein. No service was being provided to approximately 500 of the 1,100 acres proposed to be served.

Sources of Supply

Applicant's and Ranch's systems are shown on Exhibit 5 as they existed on December 31, 1963. Applicant's domestic source of supply is the Pellissier Well, which, as equipped, produces 615 gpm. Applicant also owns stock in the Southwest Chino Mutual Water Company (Mutual) and it secures water for irrigation therefrom. In 1964, it secured 163 acre-feet through such stock ownership. The Pellissier Well, Ranch Well No. 13, and the water from Mutual constituted applicant's entire water supply in 1964.

There are four operating systems being used by Ranch to provide domestic and irrigation service in the requested area (Exhibit 5). The first is a domestic pressure system serving residences located along Eucalyptus and Ramona Avenues. This system is supplied from Ranch's Well No. 2 and a hydropneumatic pressure tank. The distribution mains serving these customers are of 6-inch asbestos-cement pipe. The second is a gravity irrigation system which is generally east of Pipeline Avenue and uses pre-cast concrete pipe. The third is irrigation pressure system No. 1. This system provides service south of Lake Los Serranos and along Eucalyptus Avenue. The fourth is irrigation pressure system No. 2. This system provides service south of Lake Los Serranos and at higher elevations than pressure system No. 1. Irrigation requirements are similar for service to crops grown in irrigation pressure zones Nos. 1 and 2.

Ranch had 8 wells on December 31, 1964, with a total production of 4,336 gpm as equipped. There is no storage facility exceeding 20,000 gallons in use in the irrigation system other than that stored in Lake Los Serranos, which holds 150 acre-feet of water. Water is furnished the golf course pursuant to a special contract.

Proposed Rates

The domestic services of Ranch are now and in the future will be served at applicant's existing rates, which are as follows for 5/8 x 3/4-inch meter:

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 800 cu.ft. or less.....	\$ 3.00
Next 1,200 cu.ft., per 100 cu.ft.....	.30
Next 3,000 cu.ft., per 100 cu.ft.....	.225
Next 20,000 cu.ft., per 100 cu.ft.....	.15
Over 25,000 cu.ft., per 100 cu.ft.....	.075

Applicant serves one customer (Anazeh Ranch) under a filed irrigation service flat rate schedule which is \$30 per acre-foot gravity flow.

The proposed rates for metered irrigation service in the Ranch areas are as follows:

Zone 1 Quantity Rates:	<u>Per Acre-Foot</u>
For all gravity-flow	\$ 13.00
For all pressure-flow	25.35
 Zone 2 Quantity Rates:	
All water supplied in Zone 2	26.35

The Los Serranos Golf Club is furnished water pursuant to a 50-year lease with an option to extend for an additional 49 years. The lease provides that when a public utility assumes the obligation of supplying irrigation water, the lessor's obligation can be terminated at lessor's option.

Applicant has on file a schedule for Flat Rate Domestic Service. No service is being provided under this schedule.

The Stock Issue

Applicant proposes to acquire the water facilities of Ranch in exchange for 9,347 shares of its no par value common stock. The total book value of applicant's 1,000 shares of stock outstanding as of December 31, 1963 is \$36,992, or approximately \$37 per share.

The water facilities of Ranch are claimed to have a depreciated net value as of December 31, 1963, of \$345,863. Many of these facilities are suitable for irrigation only. A witness for applicant (Drake) made a report (Exhibit 7) in which he stated "the water system assets of Rolling Ridge Ranch were inventoried and costed as of December 31, 1957, the date of dedication of the facilities to quasi-public use. Prior to this time, the facilities were used by Ranch for their (sic) own use. The assets valued as of December 31, 1957, have been reviewed with additions, replacements, and abandonments to December 31, 1963."

The records of Ranch are deficient to the extent that the descriptions and costs of specific assets are not discernible and there are not sufficient original source documents to verify costs. In the 1920's the entire area of Ranch east of Pipeline Avenue to Carbon Canyon Road on the north and including the golf courses on the south was served by a public utility water company, and many of the existing facilities including the Pellissier Well and the booster station on the east end of the lake were public utility properties (Decision No. 37803, dated April 17, 1945, in Case No. 4683, 45 C.R.C. 699). In said decision, after reciting the history of the system, the Commission found that "...dedication of properties to public use was made by the predecessors of Don Lugo Corporation long prior to the formation of that corporation and the latter has continued and expanded such public service."

The opinion in that decision finds that public utility water service commenced long prior to 1936. The Pellissier Well, one of the wells applicant seeks to acquire from the estate, and the lake are specifically mentioned in the decision. The tariff filed pursuant to Decision No. 37803 included a map (Exhibit 4-A)

which clearly showed the property involved herein; it was filed on June 25, 1945. This tariff map is a duplication of much of Exhibit 5 herein, both as to wells and system.

A Commission financial examiner testified that:

1. The Drake engineering valuation (Exhibit 7) does not constitute historical cost, but more nearly reflects reproduction cost new depreciated and is not acceptable as a basis for either accounting for the properties to be acquired or the issuance of securities.

2. The acquisition, if authorized on the basis proposed, will have a detrimental effect on earnings and may penalize existing customers if an increase in rates necessary to maintain a reasonable rate of return on the higher rate base is authorized.

3. Applicant has not indicated what portion of the irrigation facilities to be acquired will ultimately be used and useful in domestic operations. If a substantial portion of such facilities cannot be converted to domestic use, and stock is authorized for their acquisition, then the capitalization will exceed and not be represented by earning assets in the form of rate base applicable to domestic service.

Based thereon, he recommended:

1. That applicant's request to issue stock in acquisition of the water system assets of Rolling Ridge Ranch, as proposed, be denied, and that stock be authorized only upon further showing by applicant of the original cost of the facilities proposed to be acquired, used and useful in future utility service, adequately supported, and in the amount of such original cost, together with an appropriate depreciation reserve requirement study.

2. That consideration of the appropriate accounting for the proposed acquisition be deferred until original costs and a depreciation reserve requirement acceptable to the staff have been determined.

A staff engineer recommended that:

a. Applicant be required to refile its tariff service area map to include only those areas where adjacent plant and facilities exist and service has been requested.

b. Applicant be required to maintain separate records by operating systems for the Rolling Ridge Ranch area if a certificate of public convenience and necessity is granted.

c. Applicant be required to cancel its present flat rate irrigation schedule and refile a rate which reflects zone type operations.

d. Applicant be granted a certificate of public convenience and necessity encompassing the area where Rolling Ridge Ranch was providing water service in the year 1964, after the Commission has approved the basis for acquisition of Rolling Ridge water system assets.

Results of Operation

Exhibit 7, the study by consulting engineer Drake, contains the balance sheet of applicant as of December 31, 1963, before and (pro forma) after acquisition of Ranch; an inventory and an historical cost (1957) evaluation of the assets being acquired, together with a straight-line remaining life reserve requirement study; and a study of results of operation, revenue and water requirements, and water availability based on the year 1963 and on ultimate demands. The study shows assets of applicant valued at \$82,184 and assets of Ranch valued at \$345,863, giving combined

assets of \$428,047. The liabilities and capital of applicant are stated to be \$82,184 including a deduction for earned surplus deficit as of December 31, 1963 of \$10,616 and including \$1,400 in customers' deposits and \$142 in advances for construction. Also included in the liabilities is the sum of \$43,650 for open account advances made by Paul Greening for improvements in the system of applicant, and which is payable on demand to the distributees of the estate. The only listed liabilities of Ranch are the shares of stock proposed to be issued.

During the year 1963, applicant had a net income, after taxes, depreciation, and other income deductions, of \$9,604.

Exhibit 11 shows the net value of the utility plant and other assets of applicant to have been \$324,373 as of December 31, 1964, with total liabilities and capital of \$324,373, including \$1,748 in customers' deposits and \$138,502 in advances for construction. Included under Liabilities is the above referred to open account liability to the estate of \$43,650 plus additional sums, not explained on the record, which increase the accounts payable on that date to Ranch to a total of \$150,142.

The profit and loss statement for the year 1964 included in said exhibit shows total revenues for 1964 in the amount of \$42,301 and total expenses in the amount of \$45,938.

Franchise

Applicant has a franchise granted by the Board of Supervisors of San Bernardino County (Exhibit 9) to maintain a domestic water system over, along, and under certain designated streets in the county. Applicant will be authorized herein to exercise the rights, privileges, and franchise granted by said county ordinance.

Permit

Applicant alleges that it has applied for a health permit from the State of California. When and if this permit is issued a copy should be filed with this Commission.

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 and irrigation water corporation in San Bernardino County, California, and to issue 100,000 shares of no par value common stock. It has issued 1,000 of such shares and such shares are owned by the Estate of Paul Greening, deceased. Applicant proposes to issue 9,347 additional shares of such stock to the estate in exchange for water facilities of Rolling Ridge Ranch claimed to have had a depreciated net value of \$345,863 on December 31, 1963. The principal basis for the \$345,863 evaluation for the water facilities is the 1957 value determined by an engineer employed by applicant. This evaluation was made in 1963 and sets forth reproduction costs new as of 1957 together with additions to the end of 1963. Applicant has not furnished this Commission with sufficient information or records to determine the historical cost or actual date of installation of the major part of such assets.

2. Many of the facilities of Ranch which are to be acquired by applicant were and are part of a public utility water corporation which has heretofore been found by this Commission to have become a public utility water company many years ago. Any such assets to be acquired by applicant should be valued as of the date such facilities were originally placed in public utility

service, subject to adjustments for subsequent changes and for depreciation. Any stock to be issued in exchange for facilities of Ranch should be valued on the same basis. Without significant exception, the various parts of the water system of Ranch were dedicated to public use at the times of installation. The amount of stock to be authorized herein for the purchase of the system should be based on the depreciated original cost of the facilities to be acquired which are used and useful in rendering public utility water service.

3. The public interest requires that applicant be authorized to acquire the water system of Ranch as it now exists.

4. Neither public convenience nor public necessity requires that applicant be granted a certificate as a public utility water corporation authorizing it to provide service as such beyond those areas in which either applicant or Ranch actually is providing service. Any further extensions of service should be in accordance with the provisions of Section 1001 of the Public Utilities Code.

5. Applicant's rates for metered domestic service are fair and reasonable for the service to be rendered. Applicant should be required to cancel its existing schedules for Flat Rate Domestic Service and Flat Rate Irrigation Service.

6. The rates for the Los Serranos Golf Club should be the rates to be assessed by applicant in Zone No. 2. The special contract for water for the golf club is not justified and should be terminated.

7. No authority should be granted to issue stock inasmuch as the depreciated original cost of the water system assets of Ranch

proposed to be acquired by applicant is not shown on the record herein. When such depreciated original cost is determined, the matter may be reopened for further hearings.

8. Public convenience and necessity require that applicant exercise the rights, privileges and franchise granted by San Bernardino County Ordinance No. 1214, dated February 23, 1965.

9. Applicant should secure and file with the Commission a water supply permit from the appropriate public health authorities.

10. 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 subject to the conditions therein stated and that in all other respects the application should be denied. Such authorization shall not be construed as a finding of the value of the rights and properties herein authorized to be transferred, or as indicative of amounts to be included in future proceedings for the purpose of determining just and reasonable rates. ✓

The certificate 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 certificate of public convenience and necessity or the right to own, operate or enjoy such franchise or certificate 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 the issuance of such franchise, certificate of public convenience and necessity or rights.

O R D E R

IT IS HEREBY ORDERED that:

1. Estella Greening, Jack W. Greening and Robert Greening as co-trustees of a testamentary trust set forth in the Will of Paul Greening, deceased, after the effective date of this order, may sell and transfer and Pomona Valley Water Company, a corporation (applicant) may purchase, take and operate the public utility properties and rights of Rolling Ridge Ranch (Ranch) as described in Exhibit 7 herein subject to the provisions of this order.

2. A certificate of public convenience and necessity is granted to Pomona Valley Water Company to serve the area where Rolling Ridge Ranch is providing water service. Within sixty days after the effective date hereof, applicant shall cancel its tariff service area map (Sheet 62-W of its filed tariffs, Exhibit 3 herein) and simultaneously shall file a new tariff service area map including only the areas in which service is actually being provided on the date of such filing; such service area map shall specify that portion of the area served by applicant with facilities acquired from Ranch.

3. Applicant shall keep separate records showing revenues, expenses, plant investment and depreciation reserve for the facilities acquired from Ranch until further order of this Commission.

4. Within thirty days after the effective date of this order, applicant shall cancel its Flat Rate Domestic Service Schedule.

5. Within thirty days after the effective date of this order (but not earlier than said effective date), applicant shall cancel its Flat Rate Irrigation Service Schedule and concurrently therewith

shall file in conformance with the Commission's General Order No. 96-A the schedule of rates shown in Appendix A attached hereto for irrigation service. Such filing shall become effective on the fourth day after the date of filing.

6. Applicant shall notify the Commission in writing of the date service is first rendered to the public under the authority granted herein, within ten days thereafter.

7. Applicant is granted a certificate of public convenience and necessity to exercise the rights, privileges and franchise granted by San Bernardino County Ordinance No. 1214, dated February 23, 1965.

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

9. Within sixty days after the effective date of this order, 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; and showing by appropriate markings those facilities acquired from Ranch.

10. Compliance by applicant with paragraph 2 of this order shall constitute acceptance by it of the right and obligation to furnish water services to the Ranch area certificated herein. The authorities herein granted shall expire unless the tariff service area map is filed within one year after the effective date of this order.

11. Applicant shall within one year after the effective date hereof file original cost and depreciation reserve requirement studies applicable to the facilities to be acquired from Ranch. When such filings have been made this matter may be reopened for further hearings to determine: the property used and useful in Rolling Ridge Ranch, the appropriate rates for irrigation service, the amount of stock to be issued to the estate in exchange for the water system assets of Ranch, and the appropriate accounting for the facilities acquired.

12. Except as granted herein Application No. 46912 is denied.

The effective date of paragraph 7 of this order is the date hereof. In all other respects, the effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 21ST day of JULY, 1965.

[Signature] President
[Signature]
George T. Grover
Commissioners

Commissioner Frederick B. Holoboff, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner A. W. Gatov, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. 3-ML

LIMITED MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service furnished on a limited basis.

TERRITORY

Los Serranos Village and vicinity, San Bernardino County.

RATES

	<u>Per Acre-Foot Per Service Connection</u>
Zone 1 Quantity Rates:	
For gravity-flow deliveries	\$13.00
For pressure system deliveries	25.35
Zone 2 Quantity Rates:	
For pressure system deliveries	26.35

SPECIAL CONDITIONS

1. Service under this schedule shall be limited to customers having irrigation service in the calendar year 1964.
2. Zone 1 rates shall apply to that portion of the territory which is north of Little Chino Creek and the Flood Control Channel.
3. Zone 2 rates shall apply to that portion of the territory south of Little Chino Creek and the Flood Control Channel, including golf courses of Los Serranos Country Club.
4. The minimum charge for each irrigation delivery shall be the charge equal to a delivery of one acre-foot at the applicable zone rate.