

ORIGINALDecision No. 69743

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of DEL ORO WATER CO., INC.,
 a corporation, for a certificate of
 public convenience and necessity to
 construct and operate a public utility
 water system in Butte County, California;
 to establish rates; and to issue stock.

Application No. 46949
 (Filed September 2, 1964)

O P I N I O NGeneral

By this application Del Oro Water Co., Inc., a California corporation, established in July, 1963, requests a certificate of public convenience and necessity to construct and operate a public utility water system in an unincorporated area approximately 6 miles north of Paradise, Butte County, and authority to establish rates and to issue stock.

Approximately two-thirds of the area requested to be certificated is owned and is being resubdivided by four California corporations; namely, S & O Paradise, Inc.; S & O Investment Co.; Fir Knolls Corp.; and Magalia Corp. The outstanding shares of capital stock of each of these four corporations are owned 30 percent by Frank I. O'Neill, M. D., practicing in Reno, Nevada, and 70 percent by Sam Fortino, a real estate developer residing in Chico, California. These two men and Gladys Fortino, wife of Sam Fortino, are the directors and officers of the applicant, Del Oro Water Co., Inc. The four above-named corporations and Fortino Enterprises, Inc., a Nevada corporation, owned and controlled by Sam and Gladys Fortino, have advanced funds from time to time since 1959 for the construction of the water system. These five corporations are the proposed principal stockholders of Del Oro Water Co., Inc.

Service Area

Exhibit B, attached to the application, is a map of the area for which a certificate is requested in portions of Sections 13 and 24, T23N, R3E MDB&M. The area includes a 54.5-acre subdivision known as Sierra Del Oro Estates Unit No. 1, and approximately 127 acres of the Fir Haven Subdivision, making a total of 181.5 acres. The area has approximately 370 residential lots. The size of most lots ranges from 14,000 square feet to 18,000 square feet, There are two lots of two acres each. Approximately 131 lots (67 acres) were sold individually prior to the filing of this application. Elevations of the area range from 2,670 feet above sea level in the northeast corner to approximately 2,400 feet in the southern section. The final Fir Haven Subdivision map was approved by the Butte County Planning Commission on January 12, 1955. The final subdivision map of Sierra Del Oro Estates Unit No. 1 (a portion of Fir Haven Subdivision in the process of being resubdivided from one acre lots into one-half acre lots) was approved by the Butte County Planning Commission on July 10, 1963.

The nearest existing water system is operated by Paradise Irrigation District, which serves the community of Paradise located approximately 6 miles south of applicant's water system.

Water Production Facilities

The source of water supply is the Corrie Mine shaft (also known as Princess Mine shaft) owned by Magalia Corp., located on a lot 50 by 50 feet approximately 180 feet north of the north boundary of the requested area. The top of the mine shaft is at elevation 2,660 feet. This shaft has a rectangular opening of 12 feet by 13 feet and is approximately 550 feet in depth. There are two horizontal

tunnels from the shaft at the 500-foot level below ground surface. One is 1,000 feet and the other is 900 feet in length. The normal water level is at 273 feet below ground surface. In 1959, the water level stabilized at 375 feet under a full capacity test pumping. A 100-horsepower submersible pump is situated at the 480-foot level and is capable of delivering 760 gpm with water level at 375 feet. The water is pumped through approximately 890 feet of 8-inch steel pipe to a 400,000-gallon steel storage tank, located on a one-acre site adjacent to the northeast corner of the requested area. The storage tank is 43 feet in diameter and 42 feet in height with the bottom situated at an elevation of 2,680 feet. An 8-inch pipe connects the tank with the distribution mains.

The facilities are designed to enable the water to flow from the tank to customer services on a gravity flow basis. Piping and valves at the tank inlet and outlet are so arranged that the pump may be used to provide water directly to the distribution mains. Most of the requested area can be served by gravity flow with a minimum pressure of 25 psi. There are approximately 10 lots in the vicinity of the tank where the pressure is under 25 psi. A small pressure booster station will be provided when these lots require service. There are no chlorination or filter facilities and none are proposed.

Other Use of Applicant's Source of Water Supply

The Magalia Branch Nursery of the Division of Forestry, State of California, located approximately one-half mile northeasterly of the requested area, is now obtaining water from applicant's source of water supply (Corrie Mine shaft) for domestic purposes and tree farm irrigation. This supply is obtained by means of a pump, owned and maintained by the State, which draws water directly from the

mine shaft. The State executed an agreement with the previous owner of the mine shaft on September 1, 1952 to lease the mine shaft for the purpose of installing pumping equipment to pump water at the rate of not more than 25,000 gallons per day. This lease is for a term of twenty years, which commenced on August 1, 1952 and ends on July 31, 1972. The State is paying a total rent of \$6,000 at a rate of \$300 per year. This lease may be extended, at the option of the State, from the expiration date to September 1, 1977. The lease also involves properties other than the use of the mine shaft. Applicant intends to abide by this agreement until it expires. The pump, installed by the State, is a 40-horsepower submersible pump having a capacity of 240 gpm at 475-foot head, and on a maximum day the pump is operated for approximately three hours. This maximum pumping occurs about twice each week during the hot and dry summer season.

Based upon the above information, it appears that the State's pumping of water will not seriously affect the water supply to the area proposed to be served by the applicant. Applicant's storage tank has adequate capacity to supply water to its customers in the area requested during the daytime without being refilled, and the pump is capable of filling the storage tank during the night hours. When both pumps are operating, the water in the well drops to the 375-foot stabilized level, and applicant's pump delivers water at a rate of approximately 760 gpm. This amount appears adequate to meet applicant's water supply requirements. Further, applicant estimates that its storage tank will have capacity to furnish water to all customers for more than two days. In view of these facts, a standby source of water supply is not considered necessary at this time.

Applicant's estimate that the maximum hourly water supply requirement for 370 residential customers will be approximately 740 gpm appears reasonable. The proposed water system with 760 gpm

production capacity and 400,000-gallon storage should be adequate to serve approximately 1,350 customers. Another mine shaft, known as Magalia Mine shaft, located in Lot No. 85, Sierra Del Oro Estates Unit No. 1, is considered as an alternate source of water supply for possible future development.

Water Supply Permit

Applicant has received a water supply permit, dated October 14, 1963, from the State of California Department of Public Health, containing its indication that the system will be capable of producing and delivering water of satisfactory quality for domestic use.

Distribution System

The transmission and distribution facilities already installed, and those to be installed, to serve the requested area will consist of approximately 8,069 feet of 8-inch, 8,470 feet of 6-inch, and 9,720 feet of 4-inch, 12-gauge, dipped and wrapped welded steel pipe. Both single and double customer services will be 1-inch copper pipe. There are seven 2-inch copper service pipes from the main on Northwood Drive to provide a maximum of six individual services, some of which are to serve lots facing on Magnolia Drive. There will be 18 2½-inch wharf-type fire hydrants, 4 of which are to be used for flushing the dead ends of main until such time as these lines are extended.

The Commission's General Order No. 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction," Section III 5.d.(4), provides that, except for noncorrosive soils, the wall thickness of steel pipe from 7-inch O.D. to and including 10-3/4-inch O.D., shall be 10-gauge minimum. By a soil test report of December 3, 1964, submitted by applicant's engineer, the soil condition meets the requirements in Section III 5.d(6) of General Order No. 103, and the 8-inch, 12-gauge, dipped and wrapped steel pipe

indicated in the application appears satisfactory for the proposed system.

The proposed water production facilities and the distribution system appear to be properly designed to furnish adequate service in the area requested to be certificated and conform with the Commission's General Order No. 103.

Status of Construction

The drawing titled "Service Area & Distribution System Del Oro Water Company", Exhibit B attached to the application, is a map of the existing and proposed water system facilities. The existing facilities, consisting of the pumping equipment, storage tank, and the piping system to serve that portion of Fir Haven Subdivision requested in the application, were installed in 1960 except that 1,310 feet of 8-inch pipe were installed in 1963. Facilities proposed to be installed in the near future include 1,020 feet of 8-inch and 7,150 feet of 6-inch pipe to be used to serve the resubdivided Sierra Del Oro Estate Unit No. 1. Applicant has indicated that the proposed water facilities are planned to be installed shortly after a certificate of public convenience and necessity has been obtained.

Customers

There are approximately 24 residences in the Fir Haven Subdivision now being served by the water system without charge. Upon completion of the proposed facilities, 370 lots could be served. Applicant estimates that no more than 25 lots per year will be improved with residential buildings within the next two years and that it will be six years (1971) before approximately 277 lots, or 75 percent of the total 370 lots, are improved and require service connections.

Rates

Exhibit F attached to the application is a request for a rate of \$7 per service connection per month and \$84 per year for single family residential flat rate service, with a rate of \$5 per month and \$60 per year for each additional residential unit.

The requested annual general metered service rates are:

<u>Monthly Quantity Rates</u>		<u>Per Meter Per Month</u>
First	800 cu.ft. or less	\$7.00
Next	1,200 cu.ft., per 100 cu.ft.35
Next	3,000 cu.ft., per 100 cu.ft.30
Over	5,000 cu.ft., per 100 cu.ft.20

<u>Minimum Charge</u>		<u>Per Meter Per Year</u>
For	5/8 x 3/4-inch meter	\$ 84.00
For	3/4-inch meter	100.00
For	1-inch meter	130.00
For	1½-inch meter	200.00
For	2-inch meter	275.00

The proposed rate for public fire hydrant service is \$3.00 per month per hydrant.

Proposed Stock Issue and Financing

By paragraph XV of the application, applicant seeks authority to issue 20,120 shares of common capital stock at a par value of \$10 per share, an aggregate par value of \$201,200 in consideration of the acquisition of the mine shaft, the real property upon which it is located, the storage tank and real property upon which it is located, all pumping facilities and distribution system, as built and to be built. Applicant states that no bonds have been issued and/or sold in the building and construction of the system as it now exists and that no bonds will be issued and/or sold in the completion of the system.

Staff Investigation

An engineer and a financial examiner of the Commission's staff made an investigation of the application and the operations of the company.

Results of the staff's investigation are included in a report, dated May 26, 1965. The staff's study is hereby included in this record as Exhibit 1.

The staff's investigation disclosed that applicant does not maintain detailed plant records in a manner that permits ready verification of charges to and balances in the plant accounts. Most source documents supporting plant construction were either destroyed or misplaced and it was necessary for the staff to obtain such information from contractors and suppliers.

Exhibit 1 is the staff's development of original cost of plant and related depreciation reserve. The staff recommended that applicant be authorized to issue not to exceed \$184,180 aggregate par value of its common stock at this time based on the depreciated amounts for existing plant and plant to be installed as shown in the following tabulation.

Staff determination of original cost of utility plant installed as of June 30, 1964 . . .	\$135,699
Applicant's estimate of plant facilities to be constructed	<u>62,493</u>
Subtotal	\$198,192
Less: Staff computed reserve for depreciation as of June 30, 1964	<u>(14,009)</u>
Basis for issuance of common stock	<u><u>\$184,183</u></u>

(Red Figure)

Based on its investigation, the staff recommended that the minimum meter rate be \$6.50 per month or \$78.00 per year; that annual minimum rates of \$96, \$132, \$210, and \$288 for 3/4-inch, 1-inch, 1½-inch and 2-inch meters, respectively, be authorized; and that meters should be installed only at the option of the utility.

The staff's recommendations regarding the amount of stock to be issued and the meter rate schedule are not unreasonable and will be adopted.

Estimated Operating Results

Exhibit E, attached to the application, is applicant's estimate of annual flat rate revenues for 277 customers, 75 percent of the total designed 370 service connections, and related expenses for the year 1971. This estimate and the staff engineer's estimate on the same basis are shown below:

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>
Operating Revenues	\$23,300	\$23,268
<u>Operating Expenses</u>		
Power	4,800	2,640
Maintenance and Repairs	3,500	1,440
Operating Equipment & Supplies	3,000	1,350
Salaries and Office	7,000	5,760
Insurance	600	600
Depreciation	9,230	5,586
Property Tax	3,600	2,467
State Franchise Taxes	-	188
Federal Income Taxes	-	712
Total	31,730	20,743
Net Revenue (<u>Loss</u>)	(8,430)	2,525
Estimated Rate Base		145,081
Rate of Return		1.7%

Applicant's officers are aware that there will be losses during the development period and paragraph X of the application states that ". . .The five corporations named in paragraph IX hereof have committed themselves to the continued operation of said water system, absorbing all losses until said water system is on a paying basis; . . ."

Upon consideration of the evidence, the Commission finds that:

1. Public convenience and necessity require that applicant construct and operate the proposed system.

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

3. Applicant's proposed water production facilities and distribution system on basis of design outlined in the application should provide adequate water service.

4. The rates set forth in Appendix A attached hereto are fair and reasonable for the services to be rendered.

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

The Commission concludes that:

1. The application should be granted to the extent set forth in the ensuing order.

2. Applicant should file rules, standard forms, and other tariff sheets as needed to define the conditions of rendering public utility service.

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.

In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the authorization 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 proceedings for the determination of just and reasonable rates.

A public hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. A certificate of public convenience and necessity is granted to applicant, Del Oro Water Co., Inc., authorizing it to construct a public utility water system to serve the area as delineated on the service area map in Exhibit "B", attached to the application.

2. Applicant is authorized to file, after the effective date of this order, the schedules of rates set forth in Appendix A to this order, tariff service area maps clearly indicating the boundaries of the certificated area, appropriate general rules, and copies of printed forms to be used in dealing with customers. Such filing shall comply with General Order No. 96-A and the tariff schedules shall become effective on the fourth day after the date of filing.

3. 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 furnished to the public under the authority granted herein, applicant shall file in this proceeding written notice thereof to this Commission.

5. Applicant shall prepare and keep current the system map required by paragraph 1.10.a. of General Order No. 103. Within sixty days after the water system is placed in operation under the authority granted herein, applicant shall file with the Commission two copies of such map.

6. For the year 1965 and thereafter, applicant shall apply a depreciation rate of 3.0 percent to the original cost of depreciable plant. Until review indicates otherwise, applicant shall continue to use this rate. Applicant shall review its depreciation rates at intervals of 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 result by the estimated remaining life of plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

7. Applicant shall record in its utility plant and related depreciation reserve accounts the balances of such accounts as of June 30, 1964 as developed by the staff and shown in paragraphs 18 and 26 of Exhibit 1.

8. Applicant shall comply with the requirements of General Orders Nos. 28 and 104 relating to preservation of records and filing of annual reports.

9. Within one year after the effective date of this order, applicant may issue not to exceed \$184,183 aggregate par value of its common stock for the purposes specified in the preceding opinion.

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

11. To the extent that applicant's requests exceed or differ from the rates on authority granted above they are denied.

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

Dated at San Francisco, California, this 5th day of OCTOBER, 1965.

Frederick W. Holdcraft
President

George G. Grover

William A. Blum

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner George G. Grover did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1A

ANNUAL GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

The area known as Sierra Del Oro Estates Unit No. 1 and Fir Haven Subdivision, and vicinity, located approximately 6 miles north of Paradise, Butte County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Monthly Quantity Rates:	
First 800 cu.ft. or less.....	\$ 6.50
Next 1,200 cu.ft., per 100 cu.ft.35
Next 3,000 cu.ft., per 100 cu.ft.30
Over 5,000 cu.ft., per 100 cu.ft.20
Annual Minimum Charge:	
	<u>Per Meter</u> <u>Per Year</u>
For 5/8 x 3/4-inch meter	\$ 78.00
For 3/4-inch meter	96.00
For 1-inch meter	132.00
For 1 1/2-inch meter	210.00
For 2-inch meter	288.00

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated minimum

(Cont'd.)

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

SPECIAL CONDITIONS (Cont'd.)

charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods for water used in excess of the monthly allowance under the annual minimum charge. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis.

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual minimum charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service furnished on an annual basis.

TERRITORY

The area known as Sierra Del Oro Estates Unit No. 1 and Fir Haven Sub-division, and vicinity, located approximately 6 miles north of Paradise, Butte County.

RATES

	<u>Per Service Connection Per Year</u>
For a single-family residential unit, including premises	\$84.00
For each additional single-family residential unit on the same premises and served from the same service connection...	60.00

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 so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual General Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum meter charge for the same period shall be made on or before that day.

(Cont'd.)

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS (Cont'd.)

4. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated flat rate charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods.

5. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The area known as Sierra Del Oro Estates Unit No. 1 and Fir Haven Subdivision, and vicinity, located approximately 6 miles north of Paradise, Butte County.

RATE

	<u>Per Month</u>
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. 14, Annual 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 ownership, type and the size of hydrant and 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.