

ORIGINAL

Decision No. 69744

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of VALENCIA WATER COMPANY, a)
corporation, for a Certificate of)
Public Convenience and Necessity)
authorizing Applicant to construct)
and operate a public utility water)
system in Los Angeles County,)
California, and for the authority)
to issue stock.)

Application No. 47250
(Filed January 11, 1965)

Overton, Lyman & Prince, by Donald H. Ford,
for applicant.
Charles L. Stuart, for Southern California
Water Company and Sam M. Thomson, Jr.,
for Council of Home Owner's Associations,
interested parties.
Jerry J. Levander and E. C. Crawford, for
the Commission staff.

O P I N I O N

A public hearing on the above-entitled application was held before Examiner Rogers in Saugus, California, on July 21, 1965, and oral argument was heard in Los Angeles on July 23, 1965. It is ready for decision.

All water suppliers in the vicinity were notified of the application and the hearing. None appeared or protested.

Valencia Water Company (applicant) requests a certificate of public convenience and necessity as a public utility water corporation; authority to establish rates; authority to issue stock; authority to execute contracts for water supplies; and authority to execute an option agreement for the acquisition of an additional water well and its facilities.

General Information

Applicant is a California corporation having its principal place of business near the community of Saugus, Los Angeles County, California. It was originally incorporated under the name of Saugus Water Company and its Articles of Incorporation were filed with the California Secretary of State on April 7, 1954. The principal purpose is to carry on a general water business. It is authorized to issue only one class of stock and the total number of shares originally authorized was 10,000, each of which shares was to have a stated par value of \$100. None of such stock was issued.

On March 20, 1964, an amendment to the Articles was filed with the California Secretary of State changing the name of the applicant to Valencia Valley Water Co., and increasing the number of authorized shares to 50,000, each with a stated par value of \$100.

On January 5, 1965, the name of the applicant was changed to Valencia Water Company.

The directors who signed the last change of name amendment to the articles were James F. Dickason, James D. Graham, James J. Finch and Peter McBean. The application herein was signed by James D. Graham as president. At the hearing, James F. Dickason testified he is president of applicant and vice president of Newhall Land and Farming Company (Newhall), *infra*.

Service Area

The service area proposed by applicant included 5,286 acres of land located in the vicinity of and west of the unincorporated community of Saugus in Los Angeles County, California.

It is nearly all inside territory owned by Newhall and both areas are included in the Upper Santa Clara Valley Water Agency which has been formed to import water from Northern California and is to start delivering water to the area in approximately the year 1972. The elevation of the service area ranges from 950 feet to over 1,400 feet and applicant proposes to establish three pressure zones, namely, Zone 1, including elevations between 950 feet and 1,100 feet; Zone 2, including elevations between 1,100 feet and 1,250 feet; and Zone 3, including elevations over 1,250 feet. In each instance, storage is proposed to be established between 100 feet and 130 feet higher than the highest point in the respective portion of the service area. The only present commercial developments in the service area consist of a Lockheed plant in the extreme northern end, two gasoline stations near the junction of Saugus Road and U. S. Highway 99, a clubhouse, restaurant, and tentative 42-acre commercial Tract No. 30118 containing approximately 19 lots in the west central portion.

There is also in the extreme southern portion of the proposed service area, and approximately three miles in direct line from any existing mains or facilities proposed to be acquired by applicant, a shopping center served as an accommodation by the Newhall County Water District. This area is adjacent to but outside the county water district boundaries. The mains required to serve this area and other areas would cost in excess of \$200,000 (Exhibit No. 3).

Applicant has a verbal agreement with the county water district to serve the shopping center after receipt of a certificate of public convenience and necessity.

The System and Water Supply

The existing water system owned by Newhall, and to be acquired by applicant, complies with the standards of General Order No. 103 and includes a 500,000-gallon reservoir, at an elevation of 1,300 feet; a 500-gallon-per-minute booster pump; 20,600 feet of mains varying in size from 6 inches to 18 inches; and one well (Well No. 158) capable of producing 820 gallons of water per minute as presently equipped. Applicant proposes to construct a 4.5 million-gallon reservoir at an elevation of 1,350 feet in the year 1965. The business establishments, supra, including Lockheed, are on and adjacent to and are, or can be, served by these existing facilities, all of which are in the northern portion of the proposed service area. Applicant's initial well (Well No. 158), under applicant's proposal, will be supplemented with water from Well No. 71, which produces 1,240 gallons of water per minute and is to be equipped to produce 2,000 gallons of water per minute. In addition, Well No. 158 will be supplemented with water from Well No. 157, which can produce 1,710 gallons of water per minute. The two supplementary wells may be purchased by applicant pursuant to option agreements (Exhibits Nos. 6 and 12), subject to certain provisions in the options, including the following: (1) the time to exercise the options extends to January 31, 1973; (2) applicant is required to give written notice to Newhall that it desires to exercise the options. Within 15 days after notice, Newhall is to advise applicant of the depreciated value of the cost of drilling and equipping the wells, together with its opinion of the fair market value of the real property and of the water rights connected with said wells and the total of said figures will constitute the option prices; and

(3) the options may not be exercised so long as the actual water needs of Valencia are being met by (a) the water produced from Well No. 158, (b) surplus water supplied by Newhall, and (c) water made available under the State water plan.

The surplus water referred to is to be furnished pursuant to an agreement. The water plan referred to is the Upper Santa Clara Valley Water Agency, supra.

The applicant estimated that with projected growth, in 1965 it will require 120 acre-feet of water; in 1966 it will require 280 acre-feet of water; in 1967 it will require 1,038 acre-feet of water; and in 1968 it will require 2,008 acre-feet of water. The staff estimated that in 1968 the annual water requirement will be 2,227 acre-feet. The one well to be acquired in fee (Well No. 158) has an annual capacity of 1,200 acre-feet. Applicant now has 500,000 gallons of storage and proposes additional storage of 4.5 million gallons in 1965. The staff engineer stated that in his opinion 2,100,000 gallons of storage will be required in 1968.

The Stock Issue

Applicant proposes to issue 22,000 shares of its \$100 per share par value stock with an aggregate par value of \$2,200,000 to Newhall to acquire a portion of the existing utility plant of that company and to complete the system, not financed by advances, as planned in the 5,286-acre service area. Completion of the system is assumed by the end of the year 1968. Of the funds realized from the stock issue, \$202,000 are to be paid to Newhall in exchange for the

existing utility system, supra, and the balance of the stock will be issued to Newhall in exchange for cash with which to enlarge the facilities and to provide working funds. The record contains evidence to the effect that Newhall has the ability to purchase said stock for cash.

Applicant's request for the acquisition stock issue of \$202,000 includes \$164,160 for the net book value of the tangible assets, \$27,900 for water rights, and \$10,000 for fair market value of easements for existing pipe lines and fee land requirements, including the booster pump site, the tank site, and the well site. Applicant's witness appraised these last items as having a value of \$25,800.

The staff witness adjusted the net book value of the tangible assets from \$164,160 to \$171,145. This adjustment was made by increasing the value of Well No. 158 in the amount of \$3,000 to reflect a greater original cost and by recomputing depreciation reserve on all acquired facilities to conform to the Commission's accepted procedure of using the straight line method rather than the double rate declining balance method used by applicant. The applicant agreed to these changes.

In its request for the original stock issue, applicant claims a value for water rights for water from Well No. 158 of \$27,900. Applicant produced an expert witness at the hearing to attempt to prove the value of such rights and the Examiner refused to permit evidence thereof, the record reflecting that Newhall, the owner of the well and the proposed seller, had paid nothing for such rights, if any. Applicant offered to prove that the value of

the water rights attached to Well No. 158 is \$27,900 and that this represents the fair market value thereof.

There is no reason on this record why any value should be placed on the water rights per se and such action would be contrary to the established practice of this Commission. Newhall will be compensated for the cost of the well and related facilities in the approximate amount of \$37,693. A member of the Commission staff testified that he could find no record of any costs to Newhall for water rights. The original cost to Newhall for the well and facilities was \$36,800 and the total cost to applicant of the depreciated facilities, if water rights costs were allowed, would be approximately \$65,593. In addition, Newhall will be the principal beneficiary of the development of the area inasmuch as it owns all but a small portion of the proposed service area and the development should result in a tremendous increase in land values.

The applicant appraised the existing rights of way for pipe lines, the booster pump site, the tank site and the well site as having a total value of \$25,800, and its witness gave a detailed explanation of his reasons for such evaluation. The easements for water lines were valued by him at \$22,863. These easements are for the benefit of Newhall and are for the most part for the line running to the Lockheed plant in the extreme northern portion of the proposed service area and have been in place for approximately five years. These easements were established for the benefit of Newhall and any costs therefor should be disallowed as Newhall again will

be the principal beneficiary of the development and no cash was paid by Newhall therefor. The costs of the land for the well, booster and tank sites are proper items to be used as a basis for the issue of stock, but inasmuch as the facilities were apparently dedicated to public use by Newhall when the Lockheed plant was first served with water at fixed charges by Newhall, they should be evaluated as of that time. Such information does not appear on the record and at this time no stock will be authorized based on the value of such land. Applicant should file a supplemental application for authority to issue such stock.

Except for the initial stock issue and evaluations above referred to, there is little controversy. It appears, however, that the applicant desires stock based on development to and including 1968. The staff recommended that applicant be allowed to issue capital stock of a total par value not in excess of \$1,624,500, which sum would include funds for construction estimated to and including the end of the year 1966 for development of the entire area requested by applicant. At the end of the year 1966 applicant estimates it will have \$117,000 of advances for construction in addition to internally financed construction. Such amount of stock would also provide \$10,000 for organization expenses, \$30,000 in working capital, and \$22,000 for materials and supplies. In view of our subsequent order herein reducing the service area to approximately 1,450 acres, we will allow applicant to issue not to exceed 11,000 shares of stock of the stated par value of \$1,100,000.

Rates

The staff recommended certain rates and the applicant agreed thereto and has submitted its proposed tariffs in

accordance therewith (Exhibit No. 4). The proposed schedule for general metered service is as follows:

<u>RATES</u>	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 600 cu. ft., or less	\$ 2.75
Next 3,400 cu. ft., per 100 cu. ft.22
Next 4,000 cu. ft., per 100 cu. ft.20
Over 8,000 cu. ft., per 100 cu. ft.12
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 2.75
For 3/4-inch meter	4.25
For 1-inch meter	6.50
For 1½-inch meter	10.00
For 2-inch meter	15.00
For 3-inch meter	25.00
For 4-inch meter	40.00
For 6-inch meter	65.00

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

The applicant has also submitted rates for private fire protection service and metered construction service.

Franchise

The applicant has applied for a franchise from the County of Los Angeles. When such franchise has been secured, applicant should file an application for authority for its exercise.

Health Permit

Applicant should secure a water supply permit from the State Department of Public Health and file a copy of said permit with this Commission.

Findings

The Commission finds that:

1. Valencia Water Company is a California corporation formed for the purpose of furnishing domestic water to an area comprising 5,286 acres of land in the vicinity of Saugus, Los Angeles County, California. This area is included in an area most of which is owned by Newhall and which, in turn, is included in the Upper Santa Clara Valley Water Agency formed for the purpose of importing water from northern California and delivering to the area. This agency will commence delivering water to the service area in approximately 1972.

2. The only commercial developments in the proposed service area include a Lockheed plant, two gasoline stations, a clubhouse, a restaurant, and a tentative 42-acre, 19 lot, commercial tract. One of the gas stations and the Lockheed plant are being furnished water by Newhall. The Lockheed plant has been served by Newhall for compensation since sometime in 1960, and the gas station since sometime in 1965. The remaining entities now secure their water from their own wells, or receive free water from Newhall. All of said development is in the northern portion of the proposed service area. In the southern portion of the proposed service area and approximately three miles from any existing facilities of Newhall, there is a shopping center being served by the Newhall County Water District. This shopping center is outside of the District's boundaries and is being served as an accommodation. The District desires to terminate service to the shopping center and the applicant desires to extend service thereto.

3. Newhall has a water system by which it furnishes the water to the above referred to existing customers and could serve the remaining possible customers. The system includes one well, a booster pump, mains and a reservoir, all of which are in the northern portion of the proposed service area. Applicant desires to acquire said facilities from Newhall in exchange for stock. As a partial basis for the stock issue, applicant proposes to issue stock to Newhall in exchange for water rights and easements. These water rights and easements were not purchased by Newhall and Newhall paid no consideration therefor other than the cost of installing mains and facilities and drilling the well. Applicant's services will greatly benefit Newhall by increasing the value of its land and there is no basis for placing any value on the easements or the water rights and no stock should be issued on the basis of said easements and water rights. The land on which tanks and surface facilities are installed has value on which stock .. may be issued, but there is nothing in the record to support any proper value inasmuch as the applicant's evidence shows the claimed present value, whereas the land to be acquired by applicant was devoted to water service for compensation in the year 1960.

4. The facilities proposed to be acquired by applicant from Newhall and used in the original service area comply with the provisions of General Order No. 103.

5. If applicant acquires Well No. 158 and constructs a 4.5 million-gallon reservoir, it will have an adequate water supply for development through 1966. However, a standby source of water is required. Applicant should secure a firm standby supply of

water from an additional well and facilities owned by it. The agreement and well options are not appropriate and do not assure adequate continuing water supplies at reasonable rates.

6. The existing shopping center in the southern portion of the proposed service area is not contiguous to any facilities of applicant, is at an excessive distance therefrom, and the estimated revenue therefrom was not stated on the record. The initial service area should include all of the facilities in the northern portion of the proposed service area as itemized. Neither public convenience nor necessity require that applicant provide water service to the shopping center or to any present or proposed customers other than those specified in the order herein.

7. Public convenience and necessity require that applicant be granted a certificate of public convenience and necessity as a public utility water corporation as set forth in the order herein.

8. Applicant will have the financial ability to carry out the construction and operation of the water system during the development period of the area when little or no return may be realized from the proposed utility operation.

9. The rates set forth in the appendix attached to the order herein are fair and reasonable for the service to be rendered.

10. Applicant should be authorized to issue stock for the purposes stated in the opinion herein in the amounts set forth in the order herein. We find that 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 income.

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.

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.

Conclusion

We conclude that the application should be granted to the extent set forth in the ensuing order and that in all other respects the application should be denied.

O R D E R

IT IS ORDERED that:

1. Valencia Water Company, a corporation, is hereby granted a certificate of public convenience and necessity to construct and operate a public utility water system for the distribution and

sale of water to that service area delineated in Appendix A attached hereto.

2. Applicant is authorized to file, after the effective date of this order, the rates set forth in Appendix B attached to this order, to be effective on or before the date service is first furnished to the public under the authority herein granted, together with rules and a tariff service area map acceptable to this Commission and in accordance with the requirements of General Order No. 96-A. Such rates, rules and tariff service area map shall become effective upon five days' notice to this Commission and to the public after filing as hereinabove provided.

3. Applicant shall notify this 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 shall file, within thirty days after the system is placed in operation under the rates and rules authorized herein, four copies of a comprehensive map, drawn to an indicated scale of not more than 400 feet to the inch, delineating by appropriate markings the tract of land and territory served; the principal water production, storage and distribution facilities, and the location of the various water system properties of applicant.

5. Applicant shall determine the accruals for depreciation by dividing the original cost of the utility plant less estimated future net salvage less depreciation reserve by the estimated

remaining life of the plant. Applicant shall review the accruals as of January 1st of the year following the date service is first rendered to the public under the rates and rules authorized herein and thereafter when major changes in utility plant composition occur and at intervals of not more than five years. Results of these reviews shall be submitted to the Commission.

6. The certificate herein granted and the authority to render service under the rates and rules authorized herein will expire if not exercised within one year after the effective date of this order.

7. Applicant is authorized to issue not to exceed 11,000 shares of its \$100 per share par value stock to Newhall Land and Farming Company for the purposes set forth in the opinion herein.

8. Valencia Water Company shall file with the Commission monthly reports as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

9. On or before January 1, 1967, applicant shall obtain full legal title to either Well No. 71 or Well No. 157, together with the related well site and production facilities. Two copies of each document showing title in applicant shall be filed with this Commission within thirty days after acquisition.

10. Authority to execute agreements exemplified by Exhibits Nos. 6, 8, or 12 for the purposes of securing water supplemental to water from Well No. 158 is denied.

11. Applicant shall secure a water supply permit from the appropriate authority and shall file a copy of said permit within ten days thereafter.

12. Except as herein granted, the application is 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 B. Holcomb
President

Augusta

William A. Brund

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.

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The territory including areas known as Tract No. 30118, and vicinity, near Saugus, Los Angeles County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 600 cu.ft. or less	\$ 2.75
Next 3,400 cu.ft., per 100 cu.ft.22
Next 4,000 cu.ft., per 100 cu.ft.20
Over 8,000 cu.ft., per 100 cu.ft.12

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 2.75
For 3/4-inch meter	4.25
For 1-inch meter	6.50
For 1 1/2-inch meter	10.00
For 2-inch meter	15.00
For 3-inch meter	25.00
For 4-inch meter	40.00
For 6-inch meter	65.00

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

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for privately owned fire protection systems.

TERRITORY

The territory including areas known as Tract No. 30118, and vicinity, near Saugus, Los Angeles County.

RATES

	<u>Per Month</u>
For each 4-inch service connection	\$ 6.00
For each 6-inch service connection	9.00
For each 8-inch service connection	12.00
For each 10-inch service connection	25.00
For each 12-inch service connection	35.00

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

(Continued)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE
(Continued)

SPECIAL CONDITIONS (Continued)

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

5. For water delivered for other than fire protection purposes, charges shall be made therefor under Schedule No. 1, General Metered Service.

6. 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.

Schedule No. 9-MC

METERED CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all measured water service furnished for street paving, grading and trench flooding and for delivery to tank trucks.

TERRITORY

The territory including areas known as Tract No. 30118, and vicinity, near Saugus, Los Angeles County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rate:	
For all water delivered, per 100 cu.ft.	\$ 0.30
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 2.75
For 3/4-inch meter	4.25
For 1-inch meter	6.50
For 1 1/2-inch meter	10.00
For 2-inch meter	15.00
For 3-inch meter	25.00
For 4-inch meter	40.00
For 6-inch meter	65.00

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

Schedule No. 9-MC

METERED CONSTRUCTION SERVICE
(Continued)

SPECIAL CONDITIONS

1. Construction water service under this schedule will be furnished only when surplus water is available, over the requirements for domestic service and under conditions which will not adversely affect domestic service. The utility will be the sole judge as to the availability of such surplus water.

2. Applicants for metered construction service will be required to apply for the service at least 48 hours in advance of the time delivery of water is requested to pay the costs and charges as provided by Rule No. 13, Temporary Service.

APPENDIX A

