

**ORIGINAL**Decision No. 69809

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Clear Creek Water Company, )  
 Inc., a corporation, to acquire and )  
 operate a water system, for order )  
 approving rates and for authority to )  
 issue stock in exchange for cash. )

Application No. 47288  
 (Filed January 25, 1965)

George S. Smith and John H. Convery, for  
Clear Creek Water Company, Inc., applicant.  
David K. Wong and Edward J. Prando, for the  
Commission staff.

O P I N I O N

Clear Creek Water Company, Inc., a corporation, seeks (1) a certificate of public convenience and necessity covering the construction of a public utility water system, (2) establishment of rates, (3) authority to acquire water facilities, and (4) authority to issue securities.

A public hearing on this application was held before Examiner Catey in Redding on May 13, 1965. Copies of the application had been mailed to the County of Shasta and to Cascade Community Services District, in accordance with this Commission's rules of procedure. At the hearing, testimony was presented by applicant's president, by a Commission staff engineer and by a Commission staff accountant. There are no protestants. The matter was submitted at the conclusion of the hearing.

By letter dated April 8, 1965, this Commission directed applicant's attorney to publish notice of hearing and advised him that proof of such publication would be required at the hearing. Applicant did not offer such proof at the hearing but was authorized to present it as a late-filed affidavit. Applicant has not filed

the affidavit, apparently because the publication inadvertently was not made. To protect the public interest, applicant will be required to publish a notice that a copy of the application, the transcript of the hearing and a copy of this decision will be available for public inspection at applicant's office. Applicant will be required to mail copies of the published notice to all persons owning property within the certificated area as of the date of this decision. The effective date of the order herein is deferred for longer than the customary twenty-day period to permit evaluation by the Commission of any objections which may be filed by interested parties.

#### Service Area

Applicant's proposed initial service area consists of some 200 acres in Shasta County known as Redding Ranchettes. This area is located approximately five miles south of Redding and immediately west of U. S. Highway 99. It has been subdivided into 116 lots, ranging in size from approximately 1/3 acre to 5.8 acres. Elevations of the area range from 480 to 680 feet above sea level.

The water system nearest to the area requested is that of Cascade Community Services District, located less than 1/2 mile to the northeast. Exhibit E, attached to the application, is a copy of a letter from the District advising that it cannot annex and serve Redding Ranchettes nor acquire the water system therein.

#### Water System

The water system for Redding Ranchettes was installed by the County of Shasta, which in turn sold it to applicant. It consists primarily of a well, a pump, a 24,000-gallon storage tank, about 15,000 feet of distribution mains and 116 metered services. Staff Exhibit No. 4 states that the system is adequate to serve the area requested and complies with General Order No. 103.

The facilities purchased from the county do not include Lot No. 75, the land upon which the well and tank are located. Applicant estimates that the entire lot has a current market value of \$5,700 and that the rear portion and right-of-way required for utility purposes would have a prorated market value of \$3,000. Staff Exhibit No. 4 adopted \$1,200 as allocation of a reasonable portion of the actual cost of the entire subdivision land to applicant's affiliated subdivider, subject to modification if applicant's late-filed Exhibit No. 2 indicated a different actual cost. Exhibit No. 2 indicates that the actual cost of usable land in the subdivision is \$859 per acre making an allocated actual cost of \$1,477 for Lot No. 75. Using the staff's estimate that about 40 percent of the cost of Lot No. 75 should be allocated to the portion to be used for utility purposes, we find that \$600 is reasonable for the bare cost of land.

In addition to the bare cost of land, Lot No. 75 has a lien of \$1,988 payable to Shasta County to cover the bonded indebtedness of the local assessment district. Using the same basis as was used for the bare cost of the land, we find that \$800 of the lien is a reasonable allocation to the utility operation. Utility Plant Accounts Instruction 9.C. of the Uniform System of Accounts for Water Utilities provides that this lien be charged to the land account and the unpaid balance thereof be carried in an appropriate liability account. This results in \$1,400 as the total of bare cost plus lien on the portion of Lot No. 75 used as utility plant.

The distribution mains are located in dedicated streets and in easements dedicated to public use for a walkway and for other utilities' facilities.

Financing

The \$108,111 cost of the water system, excluding intangible and landed capital, was financed by Shasta County through the formation of an assessment district, sale of the district's bonds, and resultant establishment of liens upon each of the lots within Redding Ranchettes. The County then sold the water system to applicant for \$1. Applicant requests authority to sell, at par, 5,000 shares of its \$1.00 par value common stock to finance cost of organization and land and to provide working cash.

This Commission has, in other decisions,<sup>1/</sup> pointed out the various problems which result from assessment bond financing of public utility water systems. The abnormally low rate base which results from the lot purchasers' contribution of most of the cost of the system does not justify water rates producing more than a token amount of net revenue. At this low level of investment and earnings, the utility's interest in providing adequate water service is apt to wane as soon as most of its affiliated land developer's lots are either sold or found to be not readily marketable.

It is apparent from the staff's Exhibit No. 4, and testimony relative thereto, that applicant's earnings will be extremely volatile. Water rates which would produce a rate of return of 7.3 percent on applicant's initial rate base would be reduced to less than 1½ percent by the installation of a single additional storage tank. A fluctuation of as little as \$30 in applicant's net annual revenue would change the rate of return on initial rate base by one percent.

Under normal financing of the initial development of a water system, losses incurred during the early developmental period

---

<sup>1/</sup> Decision No. 68557, dated February 9, 1965, in Application No. 46813; Decision No. 67109, dated April 21, 1964, in Applications Nos. 46076 and 46077.

would merely reduce somewhat the common stockholders' equity, without distorting unreasonably the utility's capital structure. Under the assessment bond financing, the \$20,000 which applicant's president estimates might be needed in the form of loans from stockholders during the developmental period would result in a capital structure of several hundred percent debt and a negative equity.

It would not be in the public interest to permit the establishment of a public utility with no financial stability and little hope for economically feasible future operations. We would be inclined to deny the present application were it not for certain mitigating considerations. One such consideration is the fact that applicant's proposed majority stockholders are willing to finance the cost of additional production or storage facilities through their purchase of additional common stock rather than through loans to applicant. Another consideration is that applicant's stockholders could provide funds in the form of contributed surplus, rather than as loans, to cover early operating deficits. This would preserve the slim equity until the addition of more production or storage facilities strengthens applicant's capital structure.

The order herein will authorize the issuance of common stock for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Organization Costs	\$1,268
Landed Capital	1,400
Working Capital	531
Acquisition Cost	<u>1</u>
Total	\$3,200

Rates and Earnings

The following Table I shows a comparison of the rates requested by applicant, those recommended in Exhibit No. 4 by the Commission staff, and those authorized herein:

TABLE I  
COMPARISON OF RATES

<u>Monthly Quantity</u>		<u>Applicant</u>	<u>Staff</u>	<u>Authorized</u>
First	500 cu.ft. or less	\$4.00	\$2.30	\$2.50
Next	500 cu.ft., per 100 cu.ft.	.50	.30	.35
Next	500 cu.ft., per 100 cu.ft.	.40	.30	.35
Next	500 cu.ft., per 100 cu.ft.	.40	.25	.25
Next	1,000 cu.ft., per 100 cu.ft.	.30	.25	.25
Next	1,000 cu.ft., per 100 cu.ft.	.30	.15	.15
Next	5,000 cu.ft., per 100 cu.ft.	.25	.15	.15
Over	9,000 cu.ft., per 100 cu.ft.	.20	.15	.15

Applicant designed its requested rates to provide a 7 percent return on a \$5,000 rate base, assuming a test year wherein it would be serving only 30 of the potential 116 customers. The staff designed rates which would provide a 7.3 percent return on a \$3,000 investment, at such time as 30 percent, or 93 lots, of the total are served. Assumption of a fully developed tract is more reasonable for rate-making purposes under the circumstances outlined herein and is adopted herein, reflecting the installation of the additional tank which applicant will be required to install before the number of customers reaches 40. The following Table II summarizes, the estimated results of operation on applicant's basis, the staff's basis and the basis adopted herein:

TABLE II  
ESTIMATED RESULTS OF OPERATION - FUTURE TEST YEAR

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Rates Assumed	Requested by Applicant	Recommended By Staff	Authorized Herein
Customers	30	93	116
Revenue per customer	\$ 214*	\$ 55	\$ 62
Revenues	6,418	5,134	7,180
<u>Expenses</u>			
Excl. Depr. & Taxes	4,568	3,415	4,440
Depreciation	-	-	250
Taxes	<u>1,500</u>	<u>1,500</u>	<u>1,740</u>
Total	\$6,068	\$4,915	\$ 6,430
Net Revenues	350	219	750
Rate Base	5,000	3,000	10,700
Rate of Return	7.0%	7.3%	7.0%

\*Applicant apparently assumed a higher average consumption per customer than did the staff. Staff Exhibit No. 4 shows \$96 per customer at applicant's requested rates.

The \$1,153 difference between expenses estimated by applicant and those estimated by the staff is due primarily to lower staff estimates of maintenance and repair costs. The staff estimate appears to be reasonable for a new system and is adopted herein, increased somewhat to give recognition to operation, maintenance, repair, depreciation and taxes on the additional tank hereinbefore discussed. Income taxes estimated by the staff have also been adjusted, consistent with the modification in net revenue resulting from the water rates authorized herein.

The \$2,000 difference between rate base estimates of applicant and staff is due almost entirely to the difference between the market value of the utility portion of Lot No. 75 estimated by applicant and the original cost of that land estimated by the staff. The staff rate base estimate is adopted, with a \$200 increase to reflect later information as to total actual cost of land and with a \$7,500 increase to reflect the additional tank hereinbefore discussed.

Applicant's request for 7 percent return appears reasonable, but applicant cannot expect to realize that return during the developmental stage of the subdivision. The rates, authorized herein are designed to produce a 7 percent return after applicant has installed an additional tank of sufficient capacity to serve all 116 lots in the tract, and is actually serving that many lots.

Findings and Conclusions

The Commission finds that:

1. Public convenience and necessity require the construction of a water system to serve the certificated area requested by applicant.

2. The present and proposed facilities are adequate to supply the certificated area but will not provide for unlimited future expansion.

3.a. The estimates of operating revenues, expenses, including taxes and depreciation, and rate base submitted by the staff and modified as discussed herein for a future test year reasonably represent the results of applicant's operations for the purposes of this proceeding.

b. The 7 percent rate of return requested by applicant is reasonable for the future test year adopted herein.

4. Applicant has the financial ability to acquire, to complete the construction of, and to operate a water system to serve the requested certificated area, which area shall be considered the initial development to which, in this case, the main extension rule to be filed by applicant shall not apply.

5. The maps attached to the application do not include all of the details required for the utility's system maps by General Order No. 103.



6. Applicant cannot provide adequate service to more than 40 customers until it installs additional source of supply or storage facilities.

7. The straight-line, remaining life depreciation method is appropriate for applicant to use.

8. The issue of the securities authorized herein 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.

9. The accounting recommendations made by the staff in Exhibit No. 4 are reasonable.

10. Applicant failed to publish notice of hearing.

The Commission concludes that the application should be granted to the extent, and under the conditions, set forth in the order which follows.

### ORDER

IT IS ORDERED that:

1. A certificate of public convenience and necessity is granted to applicant, Clear Creek Water Company, Inc., for the construction of a public utility water system to serve Redding Ranchettes, Tract No. 1054, Shasta County, as delineated on the map, Exhibit A, attached to the application herein.

2. Applicant shall not extend service outside of its certificated area, nor file any revised tariff service area maps indicating its willingness to so extend service, without first having obtained authorization therefor by further order of this Commission.

3. After the effective date of this order, applicant is authorized to file 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. The effective date of the tariff schedules shall be four days after the date of filing.

4. Compliance by applicant with paragraph 3 of this order shall constitute acceptance by it of the right and obligation to furnish public utility water service within the area certificated herein. The authorities granted herein shall expire unless the designated tariff sheets are filed within one year after the effective date of this order.

5. Applicant shall prepare and keep current the system map required by paragraph I.10.a. of General Order No. 103. Within sixty days after filing tariffs as authorized herein, applicant shall file with the Commission two copies of this map.

6.a. Prior to the date that applicant serves 40 customers, applicant shall have installed either a standby source of water supply of approximately 160 gpm or an additional storage tank of approximately 50,000 gallons or a combination of these to provide for the reasonable continuation of an adequate supply of water to customers in case of the failure of the present single source of supply.

b. Within thirty days after compliance with the foregoing paragraph 6.a., applicant shall file in this proceeding a written report showing the number of customers then served and the details of the manner in which such compliance was effected.

7. For the year 1965, applicant shall determine the depreciation rate for each depreciable primary plant account 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 the plant; and (3) dividing the quotient by the original cost of plant. Until review indicates otherwise,

applicant shall continue to use these rates. Applicant shall review its depreciation rates at intervals of five years and whenever a major change in depreciable plant occurs. The results of each review shall be submitted promptly to the Commission.

8.a. Applicant, on or after the effective date hereof and on or before December 31, 1965, may issue and sell not to exceed 3,200 shares of its \$1.00 par value common stock at a price of \$1.00 per share for the purposes set forth in the foregoing opinion.

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

9. Applicant shall record in its plant accounts the balances determined by the staff as set forth in the tabulation contained in paragraph 15 of Exhibit No. 4, with an offsetting credit to Ac. 265, Contributions in Aid of Construction, in the amount of \$108,110.

10.a. Within ten days after the date hereof, applicant shall publish once in a newspaper of general circulation in the area certificated herein, and send by mail to each property owner in the certificated area, a notice advising the public that copies of the application, hearing transcript, and this decision are available for public inspection at applicant's office and the Commission's San Francisco office, and that any objections to the decision must be filed in writing with this Commission in this proceeding ten days prior to the effective date of the order.

b. Within ten days after compliance with the foregoing paragraph 10.a., applicant shall file in this proceeding a verified statement of such compliance.

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

Dated at San Francisco, California, this 19<sup>th</sup> day of OCTOBER, 1965.

Frederick B. Hallock President  
George L. Hoover  
Augustus  
William A. Smith

---

Commissioners

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

Appendix A  
Sheet 1 of 2

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Redding Ranchettes, Tract No. 1054, and vicinity, located approximately five miles south of Redding, Shasta County.

RATES

Quantity Rates:		<u>Per Meter Per Month</u>
First	500 cu.ft. or less .....	\$2.50
Next	1,000 cu.ft., per 100 cu.ft. ....	.35
Next	1,500 cu.ft., per 100 cu.ft. ....	.25
Over	3,000 cu.ft., per 100 cu.ft. ....	.15

Minimum Charge:

For	5/8 x 3/4-inch meter .....	\$2.50
For	3/4-inch meter .....	3.50
For	1-inch meter .....	5.50
For	1 1/2-inch meter .....	9.50
For	2-inch meter .....	12.50

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

Appendix A  
Sheet 2 of 2

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

Redding Ranchettes, Tract No. 1054, and vicinity, located approximately five miles south of Redding, Shasta County.

RATE

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

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges shall be made at the quantity rates under Schedule No. 1, General Metered Service.
2. Relocation of any hydrant shall be at the expense of the party requesting relocation.
3. Fire hydrants shall be attached to the utility's distribution mains upon receipt of proper authorization from the appropriate public authority. Such authorization shall designate the 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.