

**ORIGINAL**

Decision No. 70864

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of INDIAN WELLS WATER COMPANY, a )  
California corporation, for a )  
certificate of public convenience )  
and necessity to construct a pub- )  
lic utility water system near )  
Coarsegold, in Madera County, and )  
establish rates for service and )  
to issue stock. )

Application No. 48211  
Filed January 28, 1966

O P I N I O N

Applicant seeks a certificate of public convenience and necessity for a public utility water system in Madera County and authorization to issue stock. A report on the application jointly prepared by an engineer of the Hydraulic Branch of the Commission's Utilities Division and a financial examiner of the Finance and Accounts Division is included in the record as Exhibit No. 1. ✓

Applicant's proposed principal stockholders are the owners and developers of Indian Lakes Estates Subdivision. This subdivision is located in the south half of Section 21 and the north three-quarters of Section 28, Township 8 South, Range 21 East, Mount Diablo Base and Meridian. It is located approximately one mile east of State Highway Route 41 at Road 714, Madera County, and is approximately three miles southeasterly of the community of Coarsegold. The tract under development contains 700 acres of gently rolling terrain and is being subdivided into 507 lots. Tentative approval of the subdivision has been received from the County of Madera and final approval by the county is anticipated in the near future. The highest elevation within the tract is

2,400 feet and the lowest elevation is 2,100 feet above sea level. Typical lot size is approximately one acre; however, some lots range in size up to about one and three-quarters acres. The area has been zoned "Single-Family Residential" and is intended primarily for resort, retirement and second home accommodations. The developers foresee immediate construction of only a very few homes in the subdivision even though they anticipate that all lots will be sold before the end of 1966.

The water systems nearest to this proposed system are two small mutual water companies located over three miles distant. The nearest public utility water system operating under the jurisdiction of this Commission is Royal Oaks Water System, which furnishes service to about 14 customers at Oakhurst, approximately 11 miles distant.

The sources of supply planned for this system are several low capacity wells drilled at various locations within the tract. There are three existing wells each of which has been pumped at a rate up to 25 gpm for extended periods of time. The safe yield from each of these wells is expected to be somewhat less than 20 gpm. It is planned to drill at least seven more wells as homes are built or the number necessary to produce a total of 200 gpm. Water will be delivered directly into the distribution system from each well with the excess going into three 50,000-gallon storage tanks to be constructed, only one initially, at the high point within the proposed service area. The proposed water supply of 200 gpm with at least 150,000 gallons of elevated storage would be adequate to serve the area requested. Pressures within the distribution system will be generally maintained between 25 to 100 psi. To obtain satisfactory pressures a few lots at higher elevations near the

storage tanks will require service through a small hydropneumatic system. Final determination of which lots may require this pressure system cannot be made until a final tract map has been approved and exact lot locations and elevations are known. A few service connections in the lower elevations of the proposed service area will be equipped with pressure reducing valves.

The distribution system to be installed in Indian Lakes Estates subdivision will consist of approximately 870 feet of 10-inch; 12,000 feet of 8-inch; 37,000 feet of 6-inch; and 17,000 feet of 4-inch diameter, cement-mortar lined and double dipped and wrapped steel pipe, laid primarily in streets within the subdivision. It is proposed that 12-gauge pipe be used for the 10-inch diameter mains and 14-gauge for 8-inch and smaller. The use of these gauges is tentative, however, depending upon the results of soil resistivity tests to be made in the near future. If the resistivity of the soil is found to be less than 2,500 ohms per cubic centimeter, pipe thickness will be increased to 10- and 12-gauge, respectively. Service pipes are to be 1-1/4-inch diameter branching to two 1-inch service connections to individual lots. A few single service pipes will be 1-inch in diameter from the distribution main to lot line. The system as designed and planned conforms with this Commission's General Order No. 103.

Attached to the application is an exhibit titled "Estimated Utility Plant" setting forth applicant's estimates of cost for the installation of water facilities during its first full year of operation in the aggregate amount of \$229,750 to serve a total of 507 lots. This utility plant cost of about \$453 per customer appears reasonable when compared with the cost of recently constructed systems of similar characteristics.

A monthly flat rate of \$10 and a monthly meter minimum of \$10 are requested. These rates appear to be somewhat high when compared with the rates of other systems operating under like conditions. It was suggested to applicant's representative that, because of the resort characteristics of the area and probable part-time occupancy of residents, the rates be set on an annual rather than on a monthly basis, with the customer having the option to be billed on a monthly basis when he establishes permanency. A meter minimum charge somewhat less than the flat rate charge was suggested, together with a schedule for fire hydrant service. Applicant's representative agreed to these improvements in rate schedule design. Applicant proposes to serve all customers on a flat rate basis.

Attached hereto are staff recommended schedules of lower rates, which incorporate the above-mentioned changes. The level of these rates is comparable with the rates of other public utility water systems in Madera County operating under conditions generally similar to those anticipated in this system. Applicant's proposed stockholders are aware that during the initial years operating expenses will probably exceed revenues.

Section X of the application contains a statement to the effect that any and all funds necessary for the operation of the water system above income for the first three years of the operation will be provided through stock assessments.

The staff is of the opinion that granting of the certificate and authorization to issue stock should be conditioned on stockholders' willingness to provide funds to cover out-of-pocket operating expenditures over and above income as long as necessary, and that such condition should not be limited to the first three

years of operation. Further, to provide assurance as to stockholders' willingness to provide additional funds as needed, the staff recommends that if authority to issue stock is granted applicant be required to deposit said stock with an escrow holder to be held pending further order of the Commission.

Applicant requests authority to issue 25,000 shares of its \$1 par value common stock. Although the application does not state which contra liability account is to be credited with the difference between the actual installation cost for the water system and the stock issue in the aggregate amount of \$25,000, discussion with applicant's representative revealed that this difference will be credited to Ac. 270, Capital Surplus. Such accounting would be appropriate.

The entries made in capital stock and capital surplus accounts for in-tract facilities should be limited to the cost of in-tract facilities actually installed during the first year of operations.

The Commission finds that:

1. Public convenience and necessity require that the application be granted as set forth in the ensuing order.
2. Applicant and its stockholders possess the financial resources to operate the proposed system.
3. The rates set forth in Appendix A attached hereto are fair and reasonable for the service to be rendered.
4. Applicant's water supply and distribution facilities will provide reasonable service for the proposed certificated area and substantially meet the requirements of General Order No. 103 when additional wells are connected to the system.

5. Applicant has not yet procured a permit from the public health authority having jurisdiction.

6. The money, property or labor to be procured or paid for by the issue 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 to income.

7. The public interest requires that the stock issued pursuant to this order be held in escrow until further order of the Commission.

The Commission concludes that the sought certificate should be granted and the issuance of stock authorized subject to the terms and conditions imposed by the following order.

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 Indian Wells Water Company authorizing it to construct a public utility water system to serve Lots Nos. 36 through 78 and 245 through 318 in the subdivision known as Indian Lakes Estates, Madera County.

2. Applicant shall not extend service outside the area certificated herein without further order of the Commission.

3. 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.

4. The authority granted herein shall expire unless the designated tariff sheets are filed within one year after the effective date of this order.

5. Within ten days after service is first furnished to the public under the authority granted herein, applicant shall file in this proceeding written notice thereof to this Commission.

6. Applicant shall prepare and keep current the system map required by paragraph I.10.a of General Order No. 103. Within thirty days after the water system is placed in operation under the authority granted herein, applicant shall file with this Commission two copies of such map.

7. 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 the plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

8. Prior to the date service is first furnished to the public under the authority granted herein, applicant shall apply to the appropriate public health authority having jurisdiction for a water supply permit for the proposed system. A copy of the application shall be filed with the Commission within ten days thereafter.

9. Applicant, on or after the effective date hereof and on or before December 31, 1966, may issue not to exceed 25,000 shares of its \$1 par value capital stock in the aggregate amount of \$25,000 for the purposes set forth in the foregoing 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 hereby made a part of this order.

11. The certificate granted herein and the authorization to issue stock are subject to stockholders' agreeing in writing to provide additional funds as required until such time as the utility's income is adequate to cover all out-of-pocket operating expenditures.

12. The shares of stock authorized by ordering paragraph 9 shall not be sold or issued unless and until the corporation shall have selected an escrow holder and said escrow holder shall have



been first approved in writing by the Commission. When issued, all documents evidencing any of said shares shall forthwith be deposited with said escrow holder to be held as an escrow pending the further written order of the Commission. The receipt of said escrow holder for said documents shall be filed with the Commission and the owner or persons entitled to said stock shall not consummate a sale or transfer of said stock, or any interest therein, or receive any consideration therefor, until the written consent of the Commission shall have been obtained so to do.

13. Applicant shall maintain its accounting records on a calendar year basis in conformance with the applicable Uniform System of Accounts or Chart of Accounts as prescribed or adopted by this Commission and shall file with the Commission on or before March 31 of each year, an annual report of its operations in such form, content and number of copies as the Commission, from time to time, shall prescribe.

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

Dated at San Francisco, California, this 14th day of JUNE, 1966.

*We will file a separate opinion.*

*Fredrick B. Hallock  
George T. Trover*

*[Signature]*  
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President  
*[Signature]*  
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*[Signature]*  
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Commissioners

APPENDIX A  
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Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The subdivision known as Indian Lakes Estates, and vicinity, located approximately 3 miles southeast of Coarsegold, Madera County.

RATES

Monthly Quantity Rates:		<u>Per Meter</u> <u>Per Month</u>
First	500 cu.ft. or less .....	\$ 4.50
Next	1,000 cu.ft., per 100 cu.ft. ....	.50
Next	4,500 cu.ft., per 100 cu.ft. ....	.40
Over	6,000 cu.ft., per 100 cu.ft. ....	.30

Annual Minimum Charge:		<u>Per Meter</u> <u>Per Year</u>
For	5/8 x 3/4-inch meter .....	\$ 54.00
For	3/4-inch meter .....	69.00
For	1-inch meter .....	129.00
For	1 1/2-inch meter .....	174.00
For	2-inch meter .....	252.00

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.

(Continued)

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE  
(Continued)

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 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 subdivision known as Indian Lakes Estates, and vicinity, located approximately 3 miles southeast of Coarsegold, Madera County.

RATES

	<u>Per Service Connection Per Year</u>
For a single-family residential unit, including premises .....	\$ 60.00
For each additional single-family residential unit on the same premises and served from the same service connection .....	30.00

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 or the customer 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.

(Continued)

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Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS-Contd.

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 subdivisions of the State.

TERRITORY

The subdivision known as Indian Lakes Estates, and vicinity, located approximately 3 miles southeast of Coarsegold, Madera 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, 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, size and maintenance responsibility of hydrants 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.

CONCURRING AND DISSENTING OPINION OF  
COMMISSIONERS HOLOBOFF AND GROVER

We concur in the Opinion and Order except as to Ordering Paragraph 11, which would hold the stockholders indefinitely liable for operating losses. In the past the Commission has not required such an unlimited agreement as to time, and it may not even be a lawful condition of certification. Absorption of losses can be a reasonable requirement during the development period, but under the circumstances here we would limit the requirement to five years.

*Frederick B. Holoboff*  
Frederick B. Holoboff, Commissioner

*George G. Grover*  
George G. Grover, Commissioner

San Francisco, California

June 14, 1966