

**ORIGINAL**Decision No. 71879

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of Pomona Valley Water Company, a  
California Corporation, for Issuance  
of Common Stock, for a Certificate of  
Public Convenience and Necessity and  
for the Fixing of Rates.

) Application No. 48405  
) (Filed April 14, 1966)  
) (Amended June 16, 1966)  
) (Amended October 6, 1966)

Maroney, Demchuk & Ziebarth, by  
Donald E. Maroney, for applicant.  
Paul Barnhill and William S. Cook,  
for Park Water Co., protestants.  
Howard C. Littlefield, for San  
Bernardino County; Nico Jan Van  
Slooten, for Magna Nova Corpora-  
tion; Sherman B. Lans, for R. A.  
Watt Company; and William L.  
Knecht, for California Farm Bureau  
Federation, and San Bernardino  
County Farm Bureau, interested  
parties.  
Raymond E. Heytens and Jerry J.  
Levander, for the Commission's  
staff.

O P I N I O N

Hearings on the application, as amended, were held before Examiner Rogers in Los Angeles on September 14, 1966, and in Pomona on October 13 and 14, 1966. The parties were thereafter given 20 days in which to file concurrent briefs. The briefs have been filed. The matter is ready for decision. Prior to the first day of hearing, notice thereof was served on the interested parties and was published as required by the Commission.

Applicant seeks authority to extend service to the service area of Southwest Chino Mutual Water Company, a California corporation (Mutual), to establish rates for service therein, and to acquire Mutual's assets in exchange for stock.

#### History of Operations

Applicant is a California corporation organized in 1952 for the purpose of acquiring, producing and supplying water as a public utility. Decision No. 46881, dated March 25, 1952, in Application No. 33189, granted applicant permission to acquire the public utility water company assets of Clara B. Bartlett, doing business as Pomona Valley Water Company.

Application No. 46912 requested authority to acquire the water facilities of Rolling Ridge Ranch (Ranch) and to extend the service area to encompass a total of 2,800 acres. Decision No. 69419 thereon dated July 21, 1965, authorized applicant to acquire the public utility water system of Ranch as it then existed, and granted a certificate to provide water service in those areas in which Ranch was actually providing service. Applicant has not acquired the assets of the Ranch, but is using the facilities of the Ranch for water service, pending a determination of the stock to be issued in exchange for said assets.

#### The Mutual

Mutual is a California corporation organized in 1960 for the purpose of developing, procuring, distributing, and selling water to its shareholders. A total of 20,000 shares of no par value stock was authorized and as of March 25, 1966,

10,430 shares were issued and outstanding. Mutual's service area comprises approximately 10,000 acres and is located southwest of Chino in San Bernardino County near the junction of Los Angeles, Orange and San Bernardino Counties (Exhibit 1).

Management and Affiliated Interests

The successors in interest to the Estate of Paul Greening (Estate) own all of applicant's outstanding shares of stock and the assets of Ranch. Applicant acquired 1,323 shares of Mutual's stock from Ranch in 1964. As of July 1, 1966, applicant owned 1,174 shares of Mutual's stock, having transferred 149 shares to the Estate as the land area appurtenant thereto lies outside of applicant's service area, is owned by the Estate, is located in Mutual's area, and consists mainly of undeveloped farm and ranch land. The Estate's land holdings consist primarily of undeveloped land held for future residential and commercial development and a 260-acre golf course which is leased to Los Serranos Country Club.

Applicant's office and principal place of business is located in Chino. Ranch and Mutual share the office with applicant. As of December 31, 1965, applicant's officers were Jack W. Greening, President; Estella Greening DeLong, Vice President; James N. Neller, Secretary; and Robert Greening, Treasurer. Jack W. Greening is also president of Mutual. Applicant's secretary, James N. Neller, manages the operations of the three entities. Two office employees and two servicemen perform clerical and operating functions for applicant, Ranch and Mutual.

Existing Service Area

As of July 1, 1966, applicant was providing service to 22 irrigation and approximately 880 domestic customers, including 20 irrigation and eight domestic customers formerly served by Ranch. Construction of the Glenmeade Addition on Tract No. 7046 (Exhibit 1), consisting of 277 residences, is completed, and approximately 200 customers included in the 880 total have been connected.

Streets are being constructed in Tract No. 7363 located immediately south of the Glenmeade Addition and consisting of approximately 90 acres subdivided into 253 lots. Residential construction is expected to begin in this tract in the near future.

There is no water service being rendered in approximately 525 acres of applicant's 2,300-acre "existing service area". The 525 acres are in a 1,400-acre overlap of service areas of applicant and Mutual (Exhibit 1). This 525-acre area includes Tracts Nos. 7364 and 7501, the area lying south of Tract No. 7501 and east of Tract No. 7364, except for a 25-acre ranch receiving irrigation service, and does not include Tract No. 7363.

Applicant's "existing service area" varies in elevation from 600 feet in the southeast portion along Pomona-Rincon Road to 925 feet in the southwest portion adjacent to Soquel Canyon Road. As of May, 1966, applicant was providing domestic water service to maximum elevations of approximately 725 feet.

Requested Service Area

The requested area is the service area of Mutual and consists of approximately 10,000 acres, including the 1,400-acre overlap, supra. As of July 1, 1966, water was being utilized for irrigation, resale and domestic service on approximately 15 per cent of the 8,600 acres of land lying outside of applicant's "existing service area". As of that date there were no active service connections to supply 1,419 acres owned by 16 shareholders. Elevations generally slope upward from east to west, ranging from 600 feet in the east to slightly above 1,500 feet in the west and south on both sides of Carbon Canyon Road.

As of June 30, 1965, Mutual served 67 irrigation customers and two resale customers. Subsequently Mutual added ten new customers to its system. Two new connections supply domestic water to a golf clubhouse (Western Hills Golf Course) and a plastic ski slope and are billed at the resale rate. The other eight customers are billed at the irrigation rate. Land holdings of individual irrigation customers vary in size from one to 1,440 acres. San Bernardino County Water Works District No. 8 and Mountain View Park Mutual Water Company resell domestic water to residential tracts of 80 and 35 acres, respectively.

Tract No. 7062, a residential subdivision consisting of 98 acres subdivided into 106 lots located approximately 1.5 miles west of the west boundary of applicant's service area, south of Carbon Canyon Road and opposite Western Hills Golf Course (Exhibit 6), is being prepared for construction. R. A. Watt, Inc., the developer of Tract No. 7062, owns approximately

500 acres adjoining Tract No. 7062. The long range development outlook for the requested area envisages a gradual conversion of the farms and ranches into residential and commercial subdivisions beginning on the Watt property or on other land in the vicinity of Western Hills Golf Course.

There are residences located on farms and ranches in Mutual's service area. Individual well supplies have been utilized to provide domestic water service to these residences. Mutual has obtained a domestic water supply permit, and individual homeowners have been utilizing Mutual's water to supply their residences at Mutual's irrigation rates.

The only services provided by Mutual in the overlapping service areas are to two of its residential customers and to one of applicant's irrigation customers. The latter service is to a 25-acre area, formerly a part of the Anazeh Ranch located west of Tract No. 7364.

Applicant plans to interconnect its domestic system with Mutual's system. These interconnections will enable applicant to provide domestic service above 750 feet elevation.

#### Mutual's System

Exhibit 1 shows Mutual's transmission and distribution facilities. Chino Basin Municipal Water District (District), a member agency of Metropolitan Water District, supplies Mutual with chlorinated water at a pressure of 200 psi at 670 feet elevation through a 20-inch master meter on its 30-inch feeder. Treatment other than chlorination is not required by the State Health

Department. The connection is designed to deliver 10 cubic feet per second (cfs) at the present time (20 cfs after modification) and supplies the lower zone Reservoirs Nos. 1 and 3, of one million gallons each, located at elevations of 1,040 and 1,030 feet, respectively. A 100-hp electric booster pump delivers 1,600 gpm to the upper pressure zone and Reservoir No. 2 of one million gallons, located at an elevation of 1,280 feet.

Applicant plans to install an additional 110-hp booster pump powered by a natural gas engine to operate in parallel with the existing 100-hp electrically powered booster pump. Such installation will provide an additional water supply to Reservoir No. 2 and the new Reservoir No. 4 (infra), as well as provide a more flexible operating arrangement in the event of an interruption to gas or electric service. As water usage increases east and north of Reservoir No. 1, it is anticipated that the installation of an additional booster pump will be necessary to supply the required flow to Reservoir No. 1. The scheduling and source of funds for this booster pump have not been determined.

To provide service to Tract No. 7062, Reservoir No. 4, of one million-gallon capacity, is under construction near said tract at an elevation of 1,505 feet. A 25-hp booster pump will be installed along Carbon Canyon Road to supply the reservoir.

The three existing reservoirs are constructed of gunited concrete and are covered with floating nylon sheeting. Water levels are controlled by altitude valves. Transmission and distribution mains are Class 150 asbestos-cement pipe except for the portion of the system located at the lower elevations

where pressures exceed 150 psi in which Class 200 asbestos-cement pipe is used. Pipe sizes in approximately 90 per cent of the system vary from 10 to 20 inches in diameter with the remainder being six inches in diameter. Mutual's services are equipped with pressure regulators where required. Construction standards and delivered pressures conform to the requirements of General Order No. 103.

#### Main Extensions

Applicant has entered into a main extension contract to serve the R. A. Watt development. The advances include a storage tank and booster pump installation and transmission lines sized for development of 611 acres. Applicant proposes to refund the charges for the booster and storage tank pursuant to Section C.2.c. of its filed main extension rule and to refund the costs of in-tract facilities and transmission lines pursuant to Section C.2.b. of that rule. R. A. Watt, Inc., has purchased 611 shares of Mutual stock to obtain domestic service. Applicant has certified to the Division of Real Estate that, pursuant to Public Utilities Commission authorization, it will provide water service to Tract No. 7062.

#### Water Supply

The primary source of supply for applicant's present area including Ranch is from nine wells, eight of which are owned by Ranch. Applicant also purchases a portion of its irrigation water from Mutual.

The total capacity of all of the wells supplying applicant is 5,088 gallons per minute.

A water supply permit has been issued by the State Department of Public Health for Mutual's system and for applicant's owned well and the associated distribution and storage facilities. Said Department has processed a water supply permit for the Ranch facilities supplying domestic water, but it has indicated that it will not recommend a permit for domestic use for irrigation system water supplied from four of the Ranch's wells having a total production of 2,278 gallons per minute.

Mutual receives all of its water from District. All of the existing and proposed service areas of applicant are within District's boundaries. District's 30-inch feeder at present has no other customers connected and has a maximum delivery capacity of 49 cfs. District will expand its pipeline capacity as required to meet future demands.

In excess of 80 per cent of the combined 11,000-acre service area is undeveloped land. Additional supplemental water from the Feather River Project is expected to be available to this area in 1972.

We find that the water supply is adequate.

#### General Metered Service Rates

Applicant's Schedule No. 1, General Metered Service, is proposed to be applied in the requested area for domestic customers. We find this schedule reasonable for such service.

Irrigation Rates

Applicant's Schedule No. 3-ML, Limited Measured Irrigation Service, is limited to customers who had irrigation service in the calendar year 1964. As of December 31, 1965, Ranch was providing irrigation service to 23 customers. Applicant provided service to one irrigation customer in 1965. Schedule No. 3-ML, filed August 23, 1965, is as follows:

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

The Minimum Charge\* for each irrigation delivery shall be the charge equal to a delivery of one acre-foot at the applicable zone rates.

\*No meter minimum charge.

As of June 1, 1966, Mutual increased its quantity charges to reflect an increase in District's charge for purchased water of \$1.00 per acre-foot for irrigation water and \$3.00 per acre-foot for resale water. It also increased its standby charge at that

time. Current and previous quantity and standby rates\* charged by Mutual for irrigation and resale water are tabulated below:

<u>Dates</u>	<u>Standby Charges Per Acre Per Year</u>	<u>Quantity Charges Per Acre-Foot</u>		
		<u>Irrigation</u>		<u>Resale</u>
		<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 2</u>
6/1/64 to 5/31/66	\$1.25	\$21.50	\$31.50	\$43.50
Effective 6/1/66	2.80	22.50	32.50	46.50

\*Standby charges are in addition to any minimum or quantity charges.

If the systems of applicant and Mutual are interconnected as proposed, existing irrigation customers served by applicant will be billed according to Schedule No. 3-ML. Irrigation customers presently receiving water from Mutual or new irrigation customers will be billed at the following proposed irrigation schedule:

	<u>Lower Zone</u>	<u>Upper Zone</u>
<u>Minimum Charges:</u>		
For 1-inch meter . . . . .	\$ -	\$ 5.00
For 1½-inch meter . . . . .	4.00	7.50
For 2-inch meter . . . . .	6.00	10.00
For 3-inch meter . . . . .	8.00	12.00
For 4-inch meter . . . . .	10.00	14.00
For 6-inch meter . . . . .	14.00	18.00
For 8-inch meter . . . . .	18.00	22.00

Quantity Rates:

Per Acre-Foot of Irrigation Water . . .	\$21.50	\$31.50
---	---------	---------

Standby Charges\*

Per Acre per year . . . . .	\$ 2.80	\$ 2.80
-----------------------------	---------	---------

\*Standby charges are in addition to any minimum or quantity charges.

Resale Rates

Applicant proposes a rate for resale water supplied from the upper zone, with meter minimum charges the same as the irrigation rate, and a quantity rate of \$43.50 per acre-foot.

Results of Operation

Below is a pro forma results of operations tabulation for the Mutual irrigation system, prepared by applicant, for the year ending June 30, 1966:

<u>Classification</u>	<u>Amount</u>
<u>Revenues</u>	
Upper Zone	\$12,470
Lower Zone	22,900
Standby Charge	<u>28,000</u>
Total Revenue	\$63,370
<u>Expenses</u>	
Cost of Water Purchased	\$26,760
Cost of Power Purchased	2,250
Managerial Labor	7,200
Legal and Accounting	2,750
Office Supplies and Expense	5,780
Repairs	890
Insurance	820
Ad Valorem Taxes	4,320
Auto Expense	1,380
Depreciation Expense	9,910
State Franchise Tax	100
Federal Income Tax	<u>270</u>
Total Expenses	<u>\$62,430</u>
Net Profit	\$ 940

This study is based upon the purchased water rates in effect prior to June 1, 1966. In its computation of revenue obtained from irrigation standby charges, applicant made no

provision for deducting areas receiving service under Schedule No. 3-ML or receiving service pursuant to Schedule No. 1.

Applicant's witness stated that when the revenues were calculated he assumed that the full 10,000-acre Mutual area would be subject to the existing standby charge of \$2.80 per acre per year. He conceded that if the application is granted as requested there would be 1,000 acres not subject to the standby charge resulting in \$2,800 per year less revenues and that the operation in the Mutual area would have resulted in a loss of \$1,590 for the fiscal year used.

In addition, purchased water charges would be increased from the \$26,760 shown above to \$28,243. Neither applicant nor staff made an estimate of standby charges which would be uncollectible.

Applicant estimates that 200 domestic customers will be added to Mutual's upper zone (which includes the Watt property) within three years. Added costs to provide this service, as tabulated in Exhibit "H" of Exhibit 5, show estimated increases in utility plant and advances for construction of approximately \$150,000, an average of \$750 per customer. This is due to the large lot sizes in the proposed development and oversizing of the back-up facilities to serve the properties to be developed by R. A. Watt, Inc. There is no provision in this estimate for meters. Applicant has not shown the source of funds for providing meters or for making refunds on advances for construction. The applicant's 1965 annual report shows net earnings of \$3,939.

Applicant's president stated that he felt long range financing would be available to applicant for meters and future extensions. He stated he had not directly contacted any financial institution and that applicant had no commitment for any funds. The Estate, he said, has not committed itself to render financial assistance to applicant.

The staff urges that if the requested authority to transfer the Mutual assets to the applicant is granted, the applicant's existing Zone 2 irrigation rates be applied in the lower existing Mutual area with a \$10 upper zone differential. On the assumption that applicant would be authorized to serve the entire area at its existing general metered service rates and staff's proposed irrigation and resale rates, which do not include a standby charge for irrigation service, the staff estimated that applicant's gross revenues from the combined operations for the year ending June 30, 1966, would total \$99,499 and its expenses would be \$115,348, for a net loss of \$15,849.

Applicant urges that it be permitted to assess Mutual's existing irrigation rates in the portion of the Mutual area outside of applicant's service area. Its reasons for this request are that such rates are established, the Mutual's members are accustomed to paying the standby charge, and without such charge the irrigation rates would be required to be increased by \$25 per acre-foot. If the applicant acquires the assets of the Mutual and is permitted to assess the \$2.80 per acre annual standby charge, it is argued that applicant's net income from operations for the year ending June 30, 1966, would be \$4,879.

The staff contends that the standby charge would be difficult to enforce because land owners not receiving water service would not pay a per acre per year fee and there would be discrimination against present irrigation customers of applicant who would pay a different rate than the customers of Mutual which applicant proposes to acquire, for comparable service.

The applicant argues that the need for revenues to offset expenses is paramount and cites what is claims is precedent for such authority. There is, however, no precedent cited in which a public utility water company has been authorized to collect a standby charge from existing or future property owners in a proposed service area where such owners have not actually requested service from and been customers of the utility.

It is our opinion and we find that if the applicant is permitted to acquire the Mutual assets and render the proposed service it should be required to file tariff schedules which do not discriminate between customers in its existing service area and those in the Mutual's area. We further find that the rates proposed by the staff are nondiscriminatory and that at the staff proposed rates the proposed consolidated system would operate at a loss.

The Stock Issue

Applicant's balance sheet as of June 30, 1965 (Exhibit D on Exhibit 2) shows that its total capital is \$46,620. It has

issued 1,000 shares of its capital stock. On this record, it fixes the value of each share issued at \$46.62 and seeks authority to issue stock to the Mutual in exchange for its assets at such figure per share. The total net value of the assets to be acquired as stated by the applicant was \$748,461.24, including depreciation to June 30, 1966. The staff adjusted the figure to \$745,369. The applicant does not object to the staff's adjustment.

We find the net value of the Mutual's assets as of June 30, 1966, to be \$745,369.

A representative of County Service Area No. 48 requested that insofar as this area is concerned authority for the extension or acquisition be held in abeyance for approximately six months. This service area is shown on Exhibit 6 and is located in the southwestern portion of the Mutual area (Exhibit 1). Included thereon are the Western Hills Golf Course, Tract No. 7062 (R. A. Watt, Inc., land), and a developed area known as Sleepy Hollow and served by San Bernardino County Water Works District No. 8.

The service area was recently formed to furnish water, fire protection, and sewage facilities to the area which comprises approximately 2,500 acres.

A representative of R. A. Watt, Inc., presented no evidence, but stated that the company desires that the applicant be granted authority to extend service as requested along the Carbon Canyon Road to the Watt Tract No. 7062; that the tract has roads and a model home and needs a domestic water supply.

Findings

In addition to the findings in the opinion herein, the Commission finds that:

1. Applicant is a privately owned public utility water corporation providing domestic water and irrigation water to approximately 1,800 acres of land in the vicinity of Chino, California. Mutual is a privately owned mutual corporation furnishing domestic and irrigation water to approximately 10,000 acres of land on the basis of one share of stock for each acre of land owned. Approximately 1,400 acres of Mutual's area are included in applicant's claimed service area.

2. The applicant and the Mutual have executed an agreement pursuant to which applicant would acquire the Mutual's water system facilities and assets and the applicant would issue stock in exchange therefor.

3. The requested irrigation rates are to be applied generally in those portions of the non-overlapping total service area not served by applicant, exclusive of certain residential areas in the Mutual's existing service area, excluding the Watt Tract No. 7062, which would be served at applicant's domestic rates.

4. The irrigation rates which would be applied in approximately 8,000 acres of the service area include a standby charge of \$2.80 per acre per year. If applicant's facilities and the Mutual's facilities are combined into one company as requested

A. 48405 - SW/sk \*\*

and the standby charge is retained, the applicant might operate at a small profit. If the applicant is not permitted to charge the \$2.80 per year per acre standby charge, but is required to apply applicant's existing irrigation rates in the lower area and the staff's proposed rates in the upper area, applicant will operate at a loss.

5. There is no basis for a standby charge for acreage not actually served with irrigation water. The establishment of the requested irrigation rates in a portion of the service area and applicant's existing irrigation rates in another portion thereof will result in preference and discrimination.

6. There is no showing that the application of reasonable rates for irrigation service in the Mutual service area will enable applicant to operate at a profit in providing service to its entire area. On the contrary, it appears that the operation would be conducted at a loss, thereby jeopardizing the existence of the applicant.

We conclude that the application should be denied without prejudice.

O R D E R

IT IS ORDERED that the application be, and it hereby is, denied without prejudice.

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

Dated at San Francisco, California, this 24<sup>th</sup> day of JANUARY, 1967.

[Signature]  
President

[Signature]

[Signature]

[Signature]

Commissioners

Commissioner WILLIAM SYMONS, JR. did not participate in the disposition of this proceeding.