

ORIGINAL

Decision No. 72784

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Ex Parte Application of WEST COVINA-WALNUT WATER COMPANY, a corporation, for an order granting a Certificate of Public Convenience and Necessity, and for authority to Construct and Operate a Public Utility Water System in Los Angeles County, California, and to establish water rates for water service, and for authority to Issue Securities and Evidence of Indebtedness.

Application No. 48522
(Filed May 31, 1966)

In the Matter of the Application of SUBURBAN WATER SYSTEMS, a California corporation, for a certificate of public convenience and necessity to extend its water system operations, Los Angeles County.

Application No. 49007
(Filed December 6, 1966)
(Amended March 2, 1967)

Roe & Rellas, by Chris S. Rellas,
for applicant, West Covina-Walnut Water Company, and protestant to Application No. 49007.

Guy and Smith, by Arthur D. Guy, Jr.,
for applicant, Suburban Water Systems, and protestant to Application No. 48522.

Robert Flotten, for City of West Covina, interested party.

Jerry J. Levander, Raymond E. Heytens,
and Edward C. Crawford, for the Commission staff.

INTERIM OPINION

West Covina-Walnut Water Company (West Covina-Walnut), a recently formed corporation,^{1/} seeks a certificate of public convenience and necessity to construct and operate a public utility water system in 3,600 acres^{2/} of rolling hills territory, one-half lying in the City of West Covina and one-half lying in the City of Walnut, Los Angeles County. All of the territory is owned and will be developed or development will be controlled by Home Savings and Loan Association (Home), 81.35 percent of which is owned by H. F. Ahmanson & Company (Ahmanson). Establishment of rates for water service, and authority to issue notes and common stock are also sought. Total estimated cost of West Covina-Walnut's proposal would be in excess of \$10,000,000, including the cost of a connection with Metropolitan Water District's (MWD) Middle Feeder Line,^{3/} and an 18,000-foot, 30-inch transmission main.^{4/}

At the end of twelve years it was estimated there would be 12,775 customers in the development which would include single residences, townhouses, a commercial plaza, a golf course, and a memorial park.^{5/} Numerous green walkways are also planned.

1/ Articles of Incorporation filed with the Secretary of State July 21, 1965 and amended May 26, 1966.

2/ A parcel of 125 acres was excluded by stipulation.

3/ Exhibit No. 18 contains a schematic diagram of MWD's Colorado River aqueduct distribution system.

4/ Home has already installed a 900-foot flood control channel crossing section, and a 5,000-foot section on a newly opened portion of Azusa Avenue, at a total cost of \$135,000.

5/ Exhibit No. 14 contains several architects' renderings of the project.

Suburban Water Systems (Suburban) seeks a certificate of public convenience and necessity to extend its San Jose Hills water system to serve the Home properties, together with an additional adjacent 400 acres. Except for a restriction placed on Suburban by Decision No. 58716, dated July 7, 1959, in Application No. 40954,^{6/} Suburban could extend its water system in the normal course of its business under Section 1001 of the Public Utilities Code without authority from this Commission. Suburban proposes to apply its presently-filed Puente-South Covina rates to the 547-foot pressure zone, its Covina Knolls rates to the 680-foot and 880-foot pressure zones, and a new schedule of rates to the 1080-foot, 1280-foot, and 1480-foot pressure zones. Financing of the on-site facilities, including the cost of mains, services, hydrants, reservoirs, pumping stations and land (in effect all facilities except meters), would be made under a requested deviation from its Rule 15, and would provide for a refund of advances by the subdivider covering said on-site facilities on a percentage of revenue basis. Financing of certain off-site facilities, including transmission main and storage and pumping facilities, would be made by advances from the subdivider pursuant to a requested deviation from its Rule 15, and refunded on the proportionate cost basis. Suburban's estimated total cost to serve the project is about \$8,200,000. Of said total amount, \$714,000 would be required to be advanced by Home or Ahmanson on the proportionate cost basis of refund, and \$6,602,300 would be required to be advanced by the

^{6/}

Because of Suburban's unbalanced financial structure.

A. 48522, A. 49007 LM **

developers on the 22 percent of revenue basis of refund. Suburban would provide \$880,000, including the cost of off-site facilities amounting to \$200,000, and the cost of on-site facilities, excluding mains, of \$680,000.

Public hearing on Application No. 48522 was held before Examiner Warner on December 13, 1966, at West Covina. No evidence was taken, and the matter was adjourned pending an investigation of Application No. 49007 which had been filed on December 6, 1966, as above-noted. Public hearings on a consolidated record of both applications were held before Examiner Warner on March 21, 22, 23, 28, and 29, 1967, at West Covina.

The record shows that, beginning in June, 1963, engineering representatives of Home asked Suburban to make a study of the terms and costs of service to the Home property. Suburban prepared a work order, and a first estimate was completed in July or August, 1964. Home was advised that, because of the restriction in Decision No. 58716 (supra), authority from this Commission would be required before Suburban could extend its water system. Negotiations continued through the years 1964, 1965, and 1966. A tentative agreement, copy of which is Exhibit No. 11, submitted by Home to Suburban, provided for the 50-50 sharing of the total cost of \$800,000 of the proposed 30-inch transmission main. The Home-Ahmanson witness stated that he was aware of the Commission's restriction which criticized Suburban's financial structure. Application No. 48522 was filed in the midst of the negotiations, which continued, but which broke down in March, 1967 upon Suburban's

unwillingness to make a \$400,000 deposit demanded by Home. The Home-Abmanson witness testified that under no conditions would Home now, or in the future, request water service of Suburban.

The record shows that, at present, MWD water available to West Covina-Walnut is unsoftened and the hydraulic gradient of 550 feet at the proposed connection point will not supply the lower reservoir. Exhibit "A" attached to Application No. 48522 is a consulting engineer's report on the design and costs of the proposed system. It is based on present conditions. The superintendent of MWD testified that, by March, 1968, softened water would be available on a continuous flow basis and the hydraulic gradient would be maintained at 675 feet or more. West Covina-Walnut's estimates of results of operations, contained in Exhibit "B" of its application, were based on an initial cost of unsoftened MWD water of \$32.00 per acre foot, whereas softened and filtered water would cost \$41.00 per acre foot. Said Exhibit reflects the \$3.00 per acre foot per year incremental cost increase, effective each July 1, which has been announced by MWD to apply through July 1969 for both untreated and softened filtered water. Exhibit "B" shows that West Covina-Walnut would operate at a loss for its first two years, and at a bare rate of return for the next three years. Although a master plan for the development of the area was secured by Home from William L. Pereira & Associates, planners and architects, the record contains no land sales, development, or construction schedule or schedules by Home, and commencement of West Covina-Walnut's operations were indefinite, perhaps within six months

or a year or more, depending on the real estate market and Home's general future plans.

Home's net worth exceeds \$160,000,000. Home-Ahmanson's sole experience in operating a public utility water system was with Palm Desert Water Company which they had acquired from the developers of land in the Coachella Valley area. After a few years of successful operation, and under threat of condemnation, the water company was sold to Coachella Valley County Water District.

In order to sell its raw land, Home will be required to attest to the State Division of Real Estate, for a Subdivision Report, that a domestic water supply is available to the prospective purchasers of lots together with the type and conditions of such supply and type of service. Ahmanson proposes to finance West Covina-Walnut, initially, through the purchase of 1,770 shares of the utility's \$500 par value common stock, at par value, for \$885,000 cash and to lend to the utility up to \$969,810 on receipt from the utility of a 15-year, noninterest bearing, promissory note, or notes convertible at any time into shares of the utility's \$500 par value common stock at par value. Ahmanson's vice president and general counsel, who is also Home's first vice president, general counsel, and a director, testified that he had attended an Ahmanson Board of Directors meeting on May 17, 1966, where a resolution, Exhibit No. 20, was passed, to lend West Covina-Walnut such funds as might be necessary to complete the latter's proposed water system under the same conditions as the initial financing proposal. No written agreement between West Covina-Walnut

and Ahmanson or Home for future financing beyond the aforesaid original has been executed.

The record shows that West Covina-Walnut's principal office would be maintained in Beverly Hills, and that a part-time general manager, an outside operating man, and a part-time office clerk would be employed during the first year of operation. In the latter part of the first year or early part of the second year a second outside man, bookkeeper, and a full-time general manager would be employed. During the second year, an office building and construction yard would be built locally.

The record shows that the Home-Ahmanson interests communicated with California Cities Water Company and San Gabriel Valley Water Company, each of which is a public utility water company operating within an approximately two-mile radius of the proposed area, but neither could feasibly furnish water service. Plate I of Exhibit A attached to Application No. 48522 shows the service area of adjacent water purveyors, none of which, except Suburban, would serve the proposed area, except that Walnut Valley Water District and Rowland Area County Water District would furnish water in an emergency or on a standby basis. None of the surrounding water purveyors, except Suburban, made any appearance or representation at the hearings, and no written evidence was submitted or received on their ability or willingness to be the major water supplier to West Covina-Walnut, or otherwise, to the proposed area.

The record shows that Suburban's present financial structure continues to be unduly burdened with debt which would increase on a pro forma basis through the year 1978 if Suburban's application were granted, and if financing of the proposed extension were effected through advances for construction under the requested deviation from its Main Extension Rule No. 15. Exhibit No. 17 shows that Suburban's common stock equity in 1978 would be 10.2 percent; preferred capital stock would be 20.9 percent; and total debt would be 64.4 percent made up of advances for construction of 38.8 percent; and long-term debt of 25.6 percent. Contributions in aid of construction would be 4.5 percent. As of December 31, 1966, long-term debt was 46.7 percent; advances for construction were 15.2 percent for a total of 61.9 percent of debt capital; preferred capital stock and common stock percentages were 22.7 percent and 9.4 percent, respectively, and contributions in aid of construction were 6.0 percent as of said date. Suburban's total utility plant as of December 31, 1966 was \$22,376,651, with a related depreciation reserve of \$4,765,431. Total operating revenues for the year 1966 were \$3,067,877, and net operating revenue was \$666,092. Dividends paid on preferred and common stock for 1966 totaled \$183,484.

Exhibits Nos. 16 and 17 are reports on the results of investigation of the applications submitted by Commission staff engineers and accountants. Exhibit No. 17 shows that, for the consumption of 2,000 cubic feet per month, a customer in Suburban's proposed Zone 547 would be charged \$3.60; in Zones 680 and 880, \$5.85; and in Zones 1080, 1280 and 1480, \$7.00. West Covina's proposed rate for that monthly consumption would be \$8.50.

It was concluded by the staff engineer in Exhibit No. 17 that the multiplicity of supply sources to Suburban's interconnected system along with the proposed booster pumps and storage reservoirs would be adequate to supply the anticipated peak demands of the area.

We find that:

1. Home Savings and Loan Association whose parent H. F. Ahmanson & Company owns 81.35 percent of its stock, owns and proposes to develop 3,600 acres of rolling hills territory in West Covina and Walnut for residential, townhouse, and commercial purposes, and a golf course, a memorial park and green walkways. A maximum of 12,775 water service connections is expected at the end of twelve years. Development is being deterred because of the present unsettled condition in the real estate market and Home's construction and development plans and schedules are not firm or final.
2. Suburban Water Systems is an experienced public utility water corporation under the jurisdiction of this Commission furnishing water service to some 28,600 customers in its San Jose Hills District immediately adjacent and contiguous to the Home property, on the west thereof.
3. Commencing in June, 1963, Home requested Suburban Water Systems, the adjacent public utility water company, to submit estimates and terms of providing water service to its properties. A proposed agreement which would have required Suburban to deposit \$400,000, as one-half the estimated cost of a transmission main to import Metropolitan Water District's water to the area, was rejected by Suburban.

4. Although Home secured no general economic feasibility study of the various sources and methods for providing water service to its properties, during the pendency of the negotiations with Suburban, the Home-Ahmanson interests approached two other public utility water companies furnishing water service within an approximately two-mile radius of the Home properties, but each advised Home that water service from it was not feasible.

5. On July 21, 1965, the Home-Ahmanson interests, caused the incorporation of West Covina-Walnut Water Company which proposes to issue 1,770 shares of its \$500 par value common stock for \$885,000, to Ahmanson, and to issue a noninterest bearing promisory 15-year note or notes, to Ahmanson for \$969,810 payable from net revenue only, convertible at any time to common stock at par value.

6. The total cost of West Covina-Walnut's proposed water system would exceed \$10,000,000. Its proposed source of water supply is to be a connection with Metropolitan Water District's Middle Feeder line through an 18,000-foot 30-inch transmission pipeline, of which 5,900 feet have been installed by Home at a cost of \$135,000. This was done in order to keep up with flood control and road construction.

7. West Covina-Walnut would operate at a loss for its first two years of operations and at a bare rate of return for the next three years.

8. Ahmanson has resolved, but not signed an agreement, to finance West Covina-Walnut for all of its needs in the same manner that it proposes to initially finance West Covina-Walnut's construction and operation.

9. Suburban offers to serve the Home area, on demand, pursuant to a requested deviation from its main extension rule by which all on-site facilities, except meters, and certain off-site

backup facilities would be financed by advances from Home, Ahmanson, or their interests. The total cost of water system facilities would approximate \$8,200,000 of which Suburban would provide \$880,000.

10. Suburban's proposal to serve the Home properties is more economical than West Covina-Walnut's; Suburban's rates for water service would be lower than West Covina-Walnut's proposed rates; Suburban's sources of water supply are more numerous, ample, and dependable than West Covina-Walnut's; and Suburban's costs of producing water to the area are substantially lower than West Covina-Walnut's.

11. Decision and order in Application No. 48522 of West Covina-Walnut should be deferred until there is first a final decision and order in Application No. 49007 (Suburban).

12. Suburban has failed to establish its financial ability to serve the requested area.

13. Suburban's common stock equity capital ratio does not compare favorably with other Class A water utilities operating in California, or with ratios which the Commission has from time to time considered necessary and advisable.

14. Suburban should increase its common stock equity to provide funds for the financing of all off-site facilities, reservoirs, and pump stations required for service to the requested area.

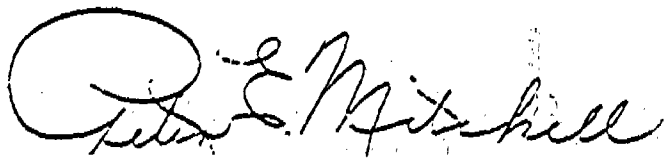
15. No private or public water supplier other than the applicants is presently ready, willing, or able to provide water facilities and service to the requested area.

16. Public convenience and necessity require and will require the construction and operation of a water system for sale of water to the general public in the requested area.

COMMISSIONER PETER E. MITCHELL DISSENTING:

The Commission should certificate only that area which will be developed within the immediate future. Cost of service projections and proposed rates on this basis would be more realistic and attuned to the actual operations of the utility.

Extensions in contiguous territory could subsequently be made under Section 1001 of the Public Utilities Code.

A handwritten signature in cursive script, reading "Peter E. Mitchell". The signature is written in dark ink and is positioned above a horizontal line.

Peter E. Mitchell, Commissioner

San Francisco, California

July 18, 1967