

Decision No. 74514**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 the Walnut Ranch Water Co., Inc.
 for a Certificate of Public Convenience
 and Necessity to Construct a Public
 Utility Water System near Colusa in
 Colusa County and to Establish Rates
 for Service.

Application No. 50093
 (Filed March 15, 1968)

O P I N I O N

Walnut Ranch Water Co., a recently formed corporation, requests a certificate of public convenience and necessity to operate a public utility water system near Colusa. It also requests authority to issue 505 shares of its no par capital stock at a value of \$100 per share.

The system would serve a 15.7 acre subdivision area consisting of 35 lots, which is presently being developed by H. Leslie Sanborn, Jr. and his wife, Cecilia M. Sanborn, who have caused the formation of applicant corporation and if the authority herein sought is granted would be its sole stockholders.

The subdivision is located approximately one mile south of Colusa. It lies adjacent to a golf course and community center and is designed to be a relatively expensive residential area.

Applicant proposes to serve the area from a new well through a 5,000-gallon hydropneumatic pressure tank. The value of the system as estimated by applicant is \$25,146 as compared to \$26,150 as estimated by the Commission staff.

Applicant proposes to provide service on a flat rate basis commencing with \$6.00 per month for a single-family residential unit

not exceeding 14,000 square feet, including premises. The lots range in area from 12,000 square feet to 20,000 square feet with the average being 13,500 square feet. Metered rates would be provided at the election of applicant. No charge for fire hydrant service is proposed. According to applicant it expects to be serving 12 customers at the end of the first year and to suffer a loss of \$2,053. According to the staff's estimate, applicant would suffer a loss of \$1,065 at the end of the fifth year even if it were serving 35 customers. The staff, therefore, recommends that the basic rate be established as a flat rate of \$9.00 per month which with an estimate of 35 customers at the end of the fifth year should result in a return of 2 percent. However, applicant is placed on notice that it cannot expect to earn a normal return on its investment in the utility unless and until some reasonable customer density is achieved. Further, potential customers should be placed on notice that continuation of the initial rate levels for any reasonable time in the future is dependent upon having a sufficient number of customers under those initial water rates to cover operating expenses. The order which follows requires applicant to provide such notice to potential customers. The order also provides for sending a copy of this decision to the California Department of Investment, Division of Real Estate, so that agency will be aware of the situation in preparing its Subdivision Final Reports for the information of potential lot purchasers.

According to the application the closest existing system is located approximately one mile away and is operated by the City of Colusa. Although the staff recommends that a public hearing should be held to determine whether the city would be willing to

A. 50093 ds

acquire and operate the proposed system the application indicates that a request was made to the city to provide the service and the request was refused.

By the application, as amended, authority is requested to issue 505 shares of no par common stock at a stated value of \$100 per share. Mr. and Mrs. Sanborn propose to transfer to applicant, assets valued at \$25,000 together with cash in the amount of \$25,000 in exchange for the stock. The staff, however, recommends that applicant be limited to the issuance of not to exceed 280 shares for an aggregate of \$28,000. This would allow working cash in the amount of \$1,850.

The staff also recommends that applicant be required to execute a contract with the subdivision developers requiring the developers to pay \$200 to the utility corporation at the time each lot is sold and that said money be placed in a special fund to be used only for out-of-pocket operations, repairs, and maintenance of the water system to the extent not provided by operating revenues and for replacement of facilities when required.

A copy of the staff report and recommendations was served upon applicant. Applicant has indicated by letter that it does not desire a public hearing and is willing to accept a certificate issued in conformity with the staff recommendations.

After consideration the Commission finds that public convenience and necessity require the granting of the certificate herein requested and further finds that the property to be procured 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. 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 Walnut Ranch Water Co., Inc., authorizing it to construct and operate a public utility water system to serve Walnut Ranch Unit 1, near the City of Colusa, as delineated on the map in Exhibit No. 3 attached to the application.

2. Applicant is authorized to file, after the effective date of this order, the schedule of rates set forth in Appendix A to this order, a tariff service area map 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 shall become effective on the fourth day after the date of filing.

3.a. Within one year after the effective date of this order, applicant may issue not to exceed 280 shares of its no par value common stock for the purposes specified in the staff report in this proceeding.

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.

4. Compliance by applicant with paragraph 2 of this order shall constitute acceptance by it of the right and obligation to furnish public utility water service to the area certificated herein. 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. Beginning with the year 1968, applicant shall determine depreciation accruals by multiplying the depreciable utility plant by a rate of 3%. This rate shall be used until review indicates it should be revised. Applicant shall review the depreciation rate, using the straight-line remaining life method, when major changes in depreciable utility plant composition occur and at intervals of not more than five years, shall revise the depreciation rate in conformance with such reviews, and, upon completion of such review, shall submit promptly to this Commission the results thereof.

7. Applicant shall set up formal books of account in conformity with the Uniform System of Accounts for Class D Water Utilities by this Commission and record therein the appropriate charges to plant and cash accounts; and credit Ac. 200, Common Stock, for the stated value of stock actually issued, not to exceed \$28,000, and Ac. 203 for any amounts by which actual costs, when ascertained, exceed the amount of stock issued.

8. Applicant shall execute a contract acceptable to the Commission, with the developer of Walnut Ranch Unit 1 and file two copies of such contract concurrent with the tariffs authorized in ordering paragraph 2 of this decision, such contract to show that the developer agrees that no lot, parcel or portion of the land in Unit 1 shall be sold, transferred or encumbered without the payment of \$200 by developer at the time of the transaction, for each of the 35 numbered lots shown on Exhibit 3 attached to Application No. 50093, a total of \$7,000 with appropriate escrow instructions

for the deposit into an interest bearing special fund account of the utility, separate from other cash accounts, with a nonaffiliated financial institution. Further, that the funds thus deposited into the utility's special fund account, with its earned interest, shall be used, insofar as operating revenues are deficient, only for out-of-pocket operations, repairs, maintenance and replacement of facilities, exclusive of any management salaries paid to stockholders or affiliated developers. No withdrawals from such fund shall be made without prior notification to the Commission of such intent in a statement signed by a responsible officer that any such expenditure is necessary for the continued operations of the utility and service to its customers situated in Unit 1 or in any authorized additional territory.

9. Applicant shall not extend nor furnish service outside of Walnut Ranch Unit 1 without authority first having been obtained from this Commission.

10. Applicant shall prepare copies of the Notice to Potential Customers set forth in Appendix B to this order and shall furnish a copy thereof to each potential customer at the time that an application for service is made.

The Secretary of the Commission is directed to furnish a copy of this decision to the California Department of Investment, Division of Real Estate.

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

Dated at San Francisco, California, this 6th day of AUGUST, 1968.

William Symons
President
John E. Schulz
William K. Burnett
Augusta
Fred P. Monissey
Commissioners

APPENDIX A
Page 1 of 2

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The subdivision known as Walnut Ranch Unit 1 and vicinity, approximately one mile south of Colusa, Colusa County, California.

RATES

		Per Meter Per Month
Service Charge:		
For 5/8 x 3/4-inch meter		\$ 7.00
For 3/4-inch meter		7.50
For 1-inch meter		10.50
For 1 1/2-inch meter		15.00
For 2-inch meter		19.00
Quantity Rate:		
Per 100 cubic feet		\$.06

The service charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.

APPENDIX A
Page 2 of 2

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

The subdivision known as Walnut Ranch Unit 1 and vicinity,
approximately one mile south of Colusa, Colusa County, California.

RATES

	<u>Per Month</u>
For a single-family residential unit	\$9.00
For each additional single-family residential unit on the same premises and served from the same service connection	4.50

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than 1 inch in diameter.
2. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service.

APPENDIX B

NOTICE TO POTENTIAL CUSTOMERS

The initial rates authorized for Walnut Ranch Water Co., Inc., can be expected to remain in effect for a reasonable period in the future only if the utility serves a sufficient number of customers to cover operating expenses. The utility's owner is absorbing initial losses from the operation of the utility. A significant, but presently indeterminable, rate increase could be required at some future time if the customer growth rate is slower than anticipated by the utility.