

ORIGINAL

Decision No. 76460

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of SERENO DEL MAR WATER COMPANY,
a California corporation, for a
certificate of public convenience
and necessity to construct a Pub-
lic Utility Water System near
Bodega Bay in Sonoma County and
to establish rates for service
and to issue stock.

Application No. 50830
(Filed January 21, 1969)

Charles M. Giovanetti, for applicant.
Tedd F. Marvin, for the Commission staff.

O P I N I O N

This application requests a certificate of public convenience and necessity to construct a public utility water system near Bodega Bay in Sonoma County; and to establish rates and issue stock. The area to be served is designated as "Sereno Del Mar Subdivision No. 1", located along State Highway 1, approximately four miles south of the community of "Jenner By The Sea", Sonoma County. It contains about 42 acres, subdivided into 50 lots. The lots are from one-half to one and one-fourth acres in size and from 70 to 175 feet above sea level. The record reveals that the system will be extended in time to serve 109 more lots on 71 additional acres, to be developed in the future.

A limited partnership owns the Sereno Del Mar Subdivision. The partnership does business under the name Ocean Investment and consists of Francis Carrington, general partner, and seven other limited partners including Developers Group, Inc. These eight partners are the proposed stockholders of applicant. Mr. Carrington

also controls Francis Realty, Inc. of Santa Rosa, which will send the bills and do the collecting for the water company. The office of the applicant is to be in Santa Rosa, about 20 miles from the subdivision. An experienced manager has been obtained to maintain the water system and to answer any emergency calls.

A public hearing was held in San Francisco on August 25, 1969, before Examiner Fraser, to decide whether sufficient water could be obtained from available sources to supply the homes on the 50 lots to be sold.

Water Sources

The proposed sources of water consist of two wells; and a creek located 3,000 feet north and east of the first subdivision unit. The first well was drilled in 1964. It is 8 inches in diameter, 75 feet deep and steel cased. A 72 hour pumping test in March, 1969, indicated a yield of 10 gallons per minute. The second well is 200 feet west of the first and was drilled on April 3, 1969. It is 8 inches in diameter, 65 feet deep and steel cased. An 85 hour pumping test in April of 1969 indicated a yield of 7.7 gallons per minute. The capacity of both wells together is about 18 gallons per minute. Two submersible pumps will convey the well water to a proposed treatment plant and a booster pump is to pump the treated water through 3,400 feet of 6-inch pipe to a proposed 50,000 gallon redwood storage tank. Consulting engineers drilled four exploratory wells in 1964 which penetrated from 45 to 75 feet; only the first well described above yielded water, at a rate of 20 gallons per minute. The flow from the two producing wells and the capacity of the 50,000 gallon tank is sufficient, under the present wet year conditions, to satisfy the requirements of General Order No. 103 on the first 50 lot subdivision. The well

water has a high manganese and iron content. It will have to be treated to remove or neutralize these substances before it can be distributed for human consumption. The staff report (Exhibit 1, Page 3) alleges that the supply of water from the wells will vary with the season of the year and past years are indicative that during dry years there may be far less than the required minimum flow.

The third source of water is Scotty Creek. Applicant has authority to divert the creek from November 1st to May 31st of each year. Applicant has recently applied to the California Division of Water Rights to have the authority extended to authorize a year round diversion of the flow. It is anticipated that the request will be granted. Applicant placed a wall across the creek on August 6, 1969 and measured the flow. It stabilized at slightly over 10 gallons a minute and applicant considers August the dry season since the last rain fell on March 17, 1969, with light showers on April 23, 1969. Applicant maintains that the 28 gallons a minute from the two wells and the creek are more than the 50 lot subdivision is likely to use under any circumstances. There are tentative buyers for 22 of the lots but no sales can be made until the final report is issued by the Division of Real Estate, which will be after applicant receives a certificate from the Public Utilities Commission.

Water Distribution System

The water will be distributed to the 50 lots by about 6,050 feet of 6-inch pipe. There will be 50 - 3/4-inch service connections and 50 water meters. There are nine 6-inch fire hydrants with 2 1/2-inch hose outlets. Pressure at each lot will ✓

range from a minimum of 94 psig to a maximum of 136 psig during periods of minimum demand. The staff report on the system (Exhibit 1, Page 5) certifies that it is within Commission requirements except for the pressure of 136 psig, which should be reduced to a lower operating pressure of 125 psig by pressure reducers.

The nearest water systems are V. L. Bressie Water System, Bodega Bay Public Utilities District, and Carmet By The Sea Water Company, an incorporated mutual water company. The V. L. Bressie Water System is a utility under this Commission's regulatory jurisdiction which serves the community of Salmon Creek, located approximately two miles south of the requested service area. The mutual is located about one-half mile south of Sereno Del Mar. It was installed about 1949 and now serves 62 houses on 72 lots at a charge of \$35 per year. Its water supply is limited with the result that water usage is sometimes restricted in the summer. Applicant mailed copies of its application to the Sonoma County Board of Supervisors, V. L. Bressie Water System and Bodega Bay Public Utilities District. No protests have been received.

Following is applicant's estimated utility plant costs amounting to \$109,073. The staff considers the estimated costs of facilities to be reasonable.

: Account :	:	:	Estimated :
: No. :	Item	:	Cost :
301	Intangible Plant	\$	1,100
306	Land		2,200 ^a
315	Wells (2)		3,420 ^a
324	Pumping Equipment		4,800 ^a
332	Water Treatment Equipment		11,550 ^a
342	Reservoirs & Tanks (Redwood)		13,150 ^a
343	Water Mains		55,528
345	Services		6,875
346	Meters		1,100
347	Meter Installations		275
348	Hydrants		7,425
371	Structures		1,650
	Total		\$109,073

a. Adjusted as per applicant's letter received May 6, 1969. Includes two wells, water treatment facilities and a redwood storage tank.

Applicant proposes to provide service on a meter basis only. The following tabulation compares the billing for different quantities of monthly sales of nearby utilities with applicant's requested rate.

Cu. Ft. Per Month	Meter Rate			
	V. L. Bressie Water System (Salmon Creek)	The Sea Ranch Gas & Water Company	Staff Recom- mended	Applicant
400	\$ 2.50	\$ 6.00	\$ -	\$ 6.00
800	4.70	9.00	8.00	9.00
1,000	5.80	10.00	9.00	10.00
1,500	8.55	12.50	11.50	12.50
2,000	11.30	15.00	14.00	15.00
3,000	16.80	20.00	18.00	20.00

Applicant also proposes a Standard Schedule No. 5 applicable to public fire hydrant service and a construction service schedule. In view of the limited supply of water available to the customers, the staff recommends a minimum rate of \$6 for a monthly usage of 400 cubic feet or less. These recommended rates should produce about the same revenue as the requested rates and are reasonable in relation to a development of this size and character.

Applicant's estimated operating results show five customers and a loss of \$4,035 at the end of the first year of operation and 30 customers with a loss of \$4,800 at the end of the fifth year. The following table shows the staff's estimated operating results for a period of 10 years.

OPERATING RESULTS
10 Years Estimated

Operating Year	Customers (50 Lots: in Subdivision)	Revenues ^a	Out-of-Pocket Expenses ^b	Oper. Cash: Drain
1st	5	\$ 480	\$ 2,440	\$ 1,960
2nd	8	770	2,440	1,670
3rd	10	960	2,440	1,480
4th	13	1,250	2,515	1,265
5th	15	1,440	2,515	1,075
6th	18	1,730	2,715	985
7th	20	1,920	2,765	845
8th	23	2,210	2,765	555
9th	25	2,400	2,790	390
10th	28	2,690	2,790	100
Accumulative Totals		\$15,850	\$26,175	\$10,325

- a. Based on a monthly consumption of 800 cubic feet per month and at applicant's proposed rates.
- b. Does not include management salaries and depreciation expenses.

Both parties agree that the utility will be operating at a loss for many years. It is further agreed that the subdividers should be required to provide a sum to reimburse the utility for out-of-pocket operating losses incurred during the developmental period. A payment of \$200 each time a lot is sold will provide a sum which should be sufficient to cover the out-of-pocket expenses of this utility during the first ten years of operation. If such funds are not required by the utility for the purpose indicated, the money that is not used should be returned to the subdividers as soon as the utility's operating revenues are adequate to cover out-of-pocket expenses. The utility and the developers should enter into a loss reimbursement agreement in a form acceptable to the Commission that contains the following provision:

Upon the sale or transfer by the developers of lots in Sereno Del Mar Subdivision No. 1, developer shall pay applicant an additional amount of \$200 per lot.

All funds paid to applicant by developers in accordance with the provisions of this agreement should be deposited in a separate interest bearing account in a bank or savings and loan association.

The application requests that an issue of 10,200 shares of \$10 par value common stock be authorized, in the amount of \$102,000 to construct the water system and provide working capital. Under this plan the water system would be entirely financed by the stock issue until the first 50 lots were sold. Past experience with small water utilities serving a few customers with a costly water distribution system, indicates that the sale of an issue of common stock should provide only a part of the necessary capital to operate and build the system. We therefore feel that the initial stock issue should be \$39,000; a total derived from lines 301 through 342, 346 and 371 of the table on applicant's estimated utility plant costs previously quoted herein. The staff recommended (Exhibit 1, Page 8) that financing of in-tract facilities be provided by the developer under the Commission's uniform main extension rule which applicant will be required to file. Applicant offered no objection to such financing of in-tract facilities or to the staff recommendation that the main extension contract be held alive by the utility as an investment in place of the utility paying cash refunds during the period the loss reimbursement agreement is in effect.

The applicant has conformed to the requirements imposed by the staff on all issues previously discussed. The sole issue considered at the hearing was whether there is sufficient water available in the two wells and Scotty Creek to supply the 50 lots in Subdivision No. 1 during years when rainfall is less than normal. Applicant's engineer is a specialist in subdivision planning and construction.

He testified the combined supply from the two wells and the creek is more than adequate to supply the 50 lot subdivision. Applicant has already paid \$9,000 for the preliminary planning and foundation exploration for a dam across Scotty Creek. He stated that the dam is authorized by a permit from the State Water Rights Board, dated January 6, 1967, which authorizes Ocean Investments to divert 24 hundredths of a second foot from November 1 to June 1 of each year and to impound for seasonal storage 160-acre feet per annum. A recent engineering survey estimated the cost of the dam, treatment, pumping and storage facility as approximately \$180,700 for an installation designed to provide water to 100 homes. The witness placed Exhibits 4 and 5 in evidence to illustrate the water treatment plants of two separate manufacturers. Both systems are designed to remove foreign chemicals such as iron and manganese from drinking water and applicant's engineers will select and install one of the water treatment plants at a cost of approximately \$12,000, including installation. An officer of applicant corporation testified that the subdivision is designed for those who desire a second home on weekends or during the summer, and the houses may not be occupied on a year-round basis. The lots will be sold for \$6,000 to \$12,000, depending on location and size. He testified that the applicant has sufficient financial backing to install the water treatment plant and the dam across Scotty Creek, but investors have provided more than \$600,000 to construct the subdivision and are reluctant to contribute further until the water company is authorized to operate and lots can be sold. He emphasized that the most optimistic analysis of the applicant's future earnings estimates 30 customers at the end of the first five years of operation. He noted that it seems evident applicant will have a number of years to

adjust to possible deficiencies and to seek other sources of water, if needed, before there are sufficient customers to tax the present water supply. A staff engineer placed his report in evidence (Exhibit No. 1) and provided photographs (Exhibit No. 7) which indicated that Scotty Creek was barely flowing on August 20, 1969. He testified that a period with less than normal annual rainfall could dry up Scotty Creek and seriously affect the water supply provided by the wells. It was inferred that an adequate dam across Scotty Creek would provide sufficient water to greatly lessen the effect of a dry year. The closing statement of the staff representative stressed the possibility that the system may not have sufficient water at some future time and the Commission may be blamed for any inconvenience resulting therefrom unless an adequate standby water supply has been provided. We agree with the staff and will require that a firm and adequate supply of water be developed before the certificate becomes effective or that a surety bond or a standby letter of credit be arranged to insure the development of such adequate supply within a reasonable period.

Findings and Conclusions

1. Applicant will have an adequate water supply for the 50 lots in Subdivision No. 1 when reliable, wholesome and potable water sources are available with a total continuing minimum capacity of 28 gallons per minute.

2. The requested certificate should not become effective until applicant has developed such reliable, wholesome and potable water sources sufficient to serve the area for which a certificate is requested or has arranged to become the obligee of a surety bond or standby letter of credit obtained by and at the expense of the developer to guarantee the completion of source of water supply facilities within an approximate five-year period.

3. The storage and distribution system is 90% completed and the water treatment plant should be selected and installed by the applicant after the water system is certificated.

4. Applicant should be limited to the issuance of 3,900 shares of its \$10 stated value common stock for an aggregate of \$39,000 to finance the following:

Utility Plant Costs Included in Accounts 301 through 342, 346 and 371	\$39,000
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5. Applicant should be required to finance all in-tract facilities, Accounts 343, 345, 347 and 348, by means of the Commission's uniform main extension rule which applicant will file as part of its tariffs.

6. That developers should agree to turn over the main extension contract to the utility to be held as an investment, with refunds being credited to capital surplus as they become due, and the developers should agree that the utility will not be required to pay cash refunds on the contract during such time as the loss reimbursement agreement is in effect. These refunds will be considered as additional capital investment.

7. Applicant should be required to enter into a loss reimbursement agreement in a form acceptable to the Commission which will require the developers to pay to applicant \$200 per lot upon the sale or transfer by the developers of lots in Sereno Del Mar Subdivision, Unit 1, to pay out-of-pocket expenses which exceed gross operating revenues, such fund to be deposited into an interest bearing special fund account of the utility separate from other cash accounts, with a bank or savings and loan association.

8. The fund with its earned interest should be used insofar as operating revenues are deficient, only for out-of-pocket operations, repairs, maintenance and replacement of facilities. Expenditures from the fund for replacement of plant facilities should be made only after letter approval from this Commission.

9. Money remaining in the fund after ten years, which has not been used should be returned to the developers or their designee.

10. Applicant and its stockholders have the financial resources to operate the proposed system.

11. The rates set forth in Appendix A attached hereto are fair and reasonable for the service to be rendered.

12. 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.

13. Public convenience and necessity require that the application be granted as set forth in the ensuing order.

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.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order a certificate of public convenience and necessity is granted to Sereno Del Mar Water Company, authorizing it to construct a public utility water system to serve Sereno Del Mar Subdivision No. 1, near Bodega Bay, Sonoma County, as delineated on the map in Exhibit B 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 3,900 shares of its \$10 par value capital stock, for the purpose 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 operations are first commenced, applicant shall determine depreciation accruals by multiplying the depreciable utility plant by a rate of 3 percent. 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 accounts in conformity with the Uniform System of Accounts for Class D Water Utilities prescribed by this Commission and record therein the appropriate charges to plant and cash accounts. A credit to Ac. 200, Common Stock, for the stated value of stock actually issued, not to exceed \$39,000, and a credit to Ac. 203, Capital Surplus, for any amounts by which actual costs, when ascertained, exceed the amount of stock issued.

8. Applicant shall finance intract facilities, Accounts 343, 345, 347 and 348 by means of the Commission's uniform main extension rule which applicant is required to file as part of its tariffs.

9. Applicant shall execute an agreement with the developers which provides that developers agree to turn over the main extension contract to the utility to be held as an investment, with refunds being credited to capital surplus as they become due, and that developers agree that the utility will not be required to pay cash refunds on the contract during such time as the loss reimbursement agreement is in effect. These refunds will be considered as additional capital investment.

10. Applicant shall enter into a loss reimbursement agreement in a form acceptable to the Commission which required the developers to pay to applicant \$200 per lot upon the sale or transfer by the developer of lots in Sereno Del Mar Subdivision, Unit 1, to pay out-of-pocket expenses, which exceed gross operating revenues. Such fund to be deposited into an interest bearing special fund account of the utility separate from other cash accounts, with a bank or savings and loan association; further that the fund, with its earned interest, should be used insofar as operating revenues are deficient, only for out-of-pocket operations, repairs, maintenance and replacement of facilities excluding any management fees or salaries paid to stockholders or affiliated developers. Expenditures from the fund for replacement of plant facilities may be made only after letter approval from this Commission.

Upon the tenth anniversary of the initial deposit, any amount remaining in the special fund not utilized for the purposes set out above shall be refunded to the developers or paid to their designee. Applicant shall provide developers with a statement not later than March 31 each year detailing the purpose, description and amount of all additions to and withdrawals from the fund during the prior calendar year, and the balance in the fund at the close of the year. A copy of this statement shall concurrently be filed with the Commission, attention of the Finance and Accounts Division. Two copies of this agreement shall be filed with the Commission concurrently with the filing of the tariffs authorized in ordering paragraphs of this decision.

11. Applicant shall not extend service outside of Sereno Del Mar Subdivision No. 1 unless authorized by this Commission upon a showing that an adequate supply of good quality water is available.

12. The effective date of this order shall be established by separate order, upon a showing by applicant on or before December 1, 1970, that it has:

- a. Installed a treatment plant to remove the iron and manganese in the water supply. The treated water shall be of such quality as to meet the United States Public Health Service Drinking Water Standards as specified in Commission General Order No. 103, Section II.1.a. and b., and
- b. Developed and connected for operation sources of supply which will provide a reliable continuing minimum quantity of 28 gallons per minute of wholesome and potable water, or
- c. Has filed with the Commission two copies of documents satisfactory to the Commission to show that applicant has been made obligee of a surety bond or a standby letter of credit in the amount of \$100,000 for a period of seven years, at the expense of Ocean Investment or any of its partners, as principal, a guarantee fund that Ocean Investment, its general and/or limited partners, will construct and have connected ready for use by December 31, 1974, facilities to enable applicant to supply not less than 28 gallons per minute of wholesome and potable water to its storage tank. The surety bond or standby letter of credit shall contain terms satisfactory to the Commission which will have the effect of a financial guarantee to applicant that funds will be available for the development of the above minimum water requirement and that action to acquire, construct and develop the necessary facilities will be taken to complete such facilities no later than December 31, 1974.

Dated at San Francisco, California, this 25th day of NOVEMBER, 1969.

William Ferguson Jr.
President

August

John

Yuan L. Stearns
Commissioners

I dissent
J. Habring

APPENDIX A
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Schedule No. 1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The subdivision known as Sereno Del Mar and vicinity located 3.5 miles north of Bodega Bay, Sonoma County.

RATES

	<u>Per Meter Per Month</u>
Quantity Rates:	
First 400 cu.ft. or less	\$ 6.00
Next 400 cu.ft., per 100 cu.ft.75
Next 2,200 cu.ft., per 100 cu.ft.50
Over 3,000 cu.ft., per 100 cu.ft.40
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 6.00
For 3/4-inch meter	7.00
For 1-inch meter	10.00
For 1 1/2-inch meter	15.00
For 2-inch meter	20.00

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

SPECIAL CONDITION

Any customer prior to resuming service within 12 months after such service was discontinued will be required to pay all minimum charges which would have been billed if service had not been discontinued.

Schedule No. 3

CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all water service furnished for construction purposes. Service furnished as temporary service under Tariff Rule No. 13. Applicant has to pay costs of installation and removal.

TERRITORY

The subdivision known as Sereno Del Mar and vicinity located 3.5 miles north of Bodega Bay, Sonoma County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
For all water delivered, per 100 cu.ft.	\$ 0.35
Minimum Charge:	
For 1½-inch meter	\$23.00

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

SPECIAL CONDITIONS

1. Construction water service under this schedule will be furnished only when surplus water is available over the requirements for domestic service and under conditions which will not adversely affect domestic service. The utility will be the sole judge as to the availability of such surplus water.

2. Applicants for metered construction service will be required to apply for the service at least 48 hours in advance of the time delivery of water is requested and to pay the costs and charges as provided by Rule No. 13, Temporary Service.

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 Soreno Del Mar and vicinity located 3.5 miles north of Bodega Bay, Sonoma County.

RATE

Per Month

For each hydrant	\$2.50
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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. The cost of installation and maintenance of hydrants shall be borne by the utility.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.
4. 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 size of hydrant and the specific location at which each is to be installed.
5. 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.