

ORIGINAL

Decision No. 76568

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
ARDEN WATER COMPANY, a California)
corporation, for authority to ex-)
tend service to a noncontiguous)
area.)

Application No. 51319
(Filed August 13, 1969)

O P I N I O N

Arden Water Company (applicant) seeks authority to extend its water system to a new subdivision (Tract No. 3235) in an unincorporated portion of Kern County. This subdivision is noncontiguous to applicant's presently authorized service area and approximately 4,000 feet west thereof. Both the existing service area and Tract No. 3235 are in an area known as Wofford Heights.

As of August 31, 1969, applicant was serving 542 customers and had 53 public fire hydrants.

The verified application states that the total area to be served by the proposed extension is approximately 30 acres divided into 63 lots which vary from approximately 10,000 square feet to approximately 32,000 square feet; that the elevation varies from 3,290 feet to 3,515 feet; that the subdivision is to be a mountain cabin and mobile home weekend vacation type area with some permanent residents; and that the tentative subdivision map has been approved by Kern County.

The application further states that the water supply will be from two wells; that the wells will produce a total of 80 gallons of water per minute; that the water is pumped into a 1,000 barrel (42,000 gallons) storage tank and from there to a 15 horsepower booster pump which forces the water to a pressure tank from which water will be delivered to the tract at pressures varying between approximately 28.8 psi and 121.2 psi; that the system will include the two wells, two well pumps, one booster pump, a 42,000 gallon storage tank, a 1,500 gallon pressure tank, 3,900 feet of 4-inch cement asbestos pipe and 231 feet of 4-inch galvanized pipe. All services are to be metered. The applicant estimated that the total original cost of the initial installation will be \$29,178.^{1/}

Applicant has been granted a franchise by the County of Kern (Ordinance No. F-124, dated March 19, 1968) and asks authority to exercise this franchise. The franchise is a 20-year nonexclusive, renewal franchise to construct and operate water pipe lines and appurtenances in and under all public highways in unincorporated county territory, generally in all of applicant's presently existing and herein requested service areas. The franchise ordinance became effective on April 18, 1968. It provides for percentage payments from gross annual receipts and gross earnings collected or received by applicant during the franchise term, such payments to be in accordance with the terms and provisions of Ordinance No. F-3, the County's general franchise ordinance.

^{1/} The staff estimated \$29,528 to include an allowance for lawyers' fees and an allowance for meters to measure the production of the two wells.

Applicant has a water supply permit from the State of California, Department of Public Health.

The system is in compliance with the requirements of this Commission's General Order No. 103.

Rates will be the same as existing rates in applicant's authorized service area (an increase has been requested by Application No. 51361, filed on September 15, 1969).

Applicant will execute a refund contract in favor of the subdivider after receiving authority to do so from the Commission. Applicant proposes that the amount of this contract be less than the developer's actual costs by \$3,500 to allow for the increased cost of water production over what applicant would need to spend in its present service area and to allow for future relocation of the storage tank (probably in connection with future subdivision activity) which is not being utilized to best advantage in its proposed location. The \$3,500 would be treated as a contribution and credited to Account No. 265.

In order to assure the financial integrity of the public utility, it is proposed that a contract be executed with the developer which would require the latter to pay the applicant an initial amount of \$1,350 and thereafter to pay to the utility corporation \$20 per lot sold for the first 37 lots sold. These cash advances from the subdivider would be deposited in a separate interest bearing savings account and would be used for out-of-pocket costs of operations, repairs and maintenance of the water system to the extent not provided by operating revenues. Interest earned on savings account would be added thereto. Also the 22 percent of

revenue refunds normally made to the subdivider would be deposited to this same account, until the system is assured of operating at a profit (estimated as the time when 37 bona fide customers are reached or 10 years). Funds remaining in this special account one year after 37 bona fide customers are reached (or after 10 years) not utilized for the purposes set out above would be refunded to the subdivider.

As planned, the system would be financed almost entirely by the subdivider. The entire cost of the initial installation would be by a cash advance under a main extension contract. The utility would finance the cost of meters and meter installations. The subdivider would provide an additional cash advance to provide for initial (estimated as lasting 10 years) operational losses. Part of this cash advance would come from the 22 percent of revenue refunds normally made to the subdivider.

The Commission staff made a field investigation in connection with this application. The report is hereby received as Exhibit No. 1 in this proceeding. The report substantiates the requests and figures presented by the applicant.

Applicant estimated that there would be no out-of-pocket losses after 10 years or when 37 customers were served in Tract No. 3235 at present rates.

At present rates,^{2/} the staff estimates that there will be a sufficient accumulation of funds after 10 years to meet the operating losses incurred during the first 13 years of operation. No additional assignments of main extension refunds to the special fund proposed by applicant would be appropriate after the fund reaches an amount equal to the total estimated operating losses. At times there will be deficits in the estimated loss reimbursement fund which would have to be borne by applicant. The precision of the revenue and operating loss estimates is not of a degree sufficient to justify revision of applicant's proposal as to deposits in the fund.

Findings of Fact

The Commission finds that:

1. A public hearing is not necessary in this matter.
2. Applicant possesses the financial resources to acquire distribution meters and well meters and to construct and operate the proposed system.
3. The water supply and distribution facilities will be sufficient to enable applicant to provide reasonable service for the additional area which it seeks authority to serve.
4. Applicant's rates presently authorized by the Commission are fair and reasonable for the service to be rendered in the additional area for which applicant seeks herein authority to serve.

^{2/} Applicant has filed Application No. 51361 requesting a rate increase. The staff estimates that if Application No. 51361 is granted there will be a sufficient accumulation of funds after six years to meet the operating losses during the first ten years of operation.

5. Public convenience and necessity require that applicant be authorized the additional area for which authority is herein sought.

6. Public convenience and necessity require the exercise by the applicant of the rights and privileges granted in the franchise conferred by Ordinance No. F-124 of the Board of Supervisors of the County of Kern.

The staff's modifications to applicant's fund requests are reasonable.

7. Applicant should be authorized to execute the loss reimbursement agreement with the developer of Tract No. 3235.

8. Applicant should be authorized to deviate from its filed main extension rule as requested.

9. Applicant should secure title to the well sites, storage and booster tank sites and other property outside the service area. It should also secure easements for the lines inside the tract.

Conclusions of Law

1. The application should be granted as set forth in the ensuing order.

2. Applicant should, prior to the time service is first furnished to the public under the authority herein granted, have its water supply permit extended to include the area herein certificated.

The certificates of public convenience and necessity issued herein are subject to the following provision of law:

The Commission shall have no power to authorize the capitalization of the franchise involved herein or these certificates of public convenience and necessity, or the right to own, operate or enjoy such franchise or certificates of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State or to a political subdivision thereof as the consideration for the issuance of such franchise, certificates of public convenience and necessity or right.

O R D E R

IT IS ORDERED that:

1. Applicant is granted a certificate of public convenience and necessity to extend service noncontiguously to Tract No. 3235 in Kern County as delineated on a portion of the map attached to the application.

2. Applicant is granted a certificate of public convenience and necessity to exercise the rights and privileges conferred by the franchise issued pursuant to Ordinance No. F-124, adopted March 19, 1968, by the Board of Supervisors of the County of Kern.

3. After the effective date of this order, applicant is authorized to file revised tariff sheets, including a tariff service area map, to provide for the application of its present tariff schedules to the service area certificated herein. Such filing shall comply with General Order No. 96-A. The effective date of the revised tariff sheets shall be four days after the date of filing.

4. Compliance by applicant with paragraph 3 of this order shall constitute acceptance by it of the right and obligation to furnish public utility water service to Kern County Tract No. 3235. 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 obtain title to the land used as sites for its operative plant, and easements for its transmission and distribution lines.

7. The effective date of this order shall be established by supplemental order of the Commission after applicant has filed:

- a. An executed copy of a main extension contract for Tract No. 3235 to make refunds on both intract and special facilities based upon 22 percent of the revenue derived from Tract No. 3235. The amount of this contract shall be \$3,500 less than the cost of these facilities (excluding meters). Applicant shall credit the \$3,500 as a contribution in aid of construction.
- b. An executed loss reimbursement agreement in a form acceptable to the Commission which shall provide that the developer of Tract No. 3235 will immediately pay applicant a lump sum of \$1,350 plus subsequent amounts of \$20 per lot upon the sale or transfer by developer of the first 37 lots in Tract No. 3235, plus the refunds from the main extension contract executed between applicant and subdivider for Tract No. 3235 for the number of years necessary to total sufficient funds (excluding interest) to cover the staff's estimated total cash drain tabulated in Table A (present rates) or Table B (if the rates proposed in Application No. 51361 are granted), of the staff report entered into evidence in this proceeding, as Exhibit No. 1. Such funds, together with interest earned thereon, shall be used only to pay out-of-pocket (cash) operating expenses and taxes in connection with the operations of the utility's system to the extent that such operating expenses and taxes actually incurred exceed gross revenues. The maximum allocation of management salaries, herein, shall be \$100 plus one dollar per customer per year. Expenditures from the fund for these purposes shall not exceed the staff's estimated cash drain for each year as tabulated in Table A or Table B, if applicable, of the staff report, plus the related accrued interest. Upon the fourteenth anniversary or the tenth anniversary (if the Commission authorizes the rates proposed in Application No. 51361) of the initial deposit, or with Commission approval at such time Tract No. 3235 is operated without any cash drain, any amount remaining in the special fund not utilized for the purpose set out above shall be refunded to the subdivider or paid to his designee.

8. Applicant shall provide subdivider 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.

Dated at San Francisco, California, this 16th day of DECEMBER, 1969.

William J. Lyons
President

Arthur J. Lyons
Arthur J. Lyons

Thomas J. Lyons
Thomas J. Lyons
Commissioners