

Decision No. 77520

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Merrill J. Bonander, dba Kings River Estates Water Company, a privately owned company, for a Certificate of Public Convenience and Necessity to Operate a Public Utility Water System and to Establish Rates for Water Service in an Unincorporated Area East of Kingsburg, in Tulare County, known as Tract No. 512 and Adjacent Areas to be Subdivided as Shown on Exhibit "A", as set forth in Section 1001 of the Public Utilities Code.

Application No. 51257
(Filed July 18, 1969)

Merrill Joseph Bonander, owner, for Kings River Estates Water Company, applicant.
Daniel M. Perry, for Tulare County Health Department, interested party.
S. Boikan, Counsel, and J. J. Levander, for the Commission staff.

O P I N I O N

Applicant requests a certificate to construct, operate and charge rates for a water system to serve a proposed 42-lot residential subdivision of 20.43 acres, located in the NE 1/4 of the NE 1/4 of Sec. 30, T.16 S., R.23E., M.D.B.& M. The subdivision, formerly vineyard land, abuts the west bank of the Kings River in an unincorporated area of Tulare County about three miles east of Kingsburg, Fresno County. Applicant is an optometrist with offices in Selma, Fresno County.

The application was submitted following a hearing at Visalia on December 2, 1969 before Examiner Gregory. Two staff reports in evidence, one by the Utilities Division (Exhibit 1) and the other by the Finance and Accounts Division (Exhibit 2), describe the proposed system and rates and discuss financial aspects of the application.

The evidence discloses that applicant and his wife plan to develop the tract in two stages, commencing with 20 of the more desirable lots (including 13 with river frontage) followed, at an undisclosed time, by the remaining 22. Neighboring farm land, owned by applicant's relatives and others, if later subdivided would be served by extensions from the proposed system, for an ultimate total of about 100 services for the entire system. The facilities proposed for the 42-lot tract appear to be sufficient, if supplemented by either a standby water source or adequate storage as recommended by the staff, and if operating pressures are raised to meet requirements of General Order No. 103. Applicant proposes to use part of his office space in Selma, about five miles west of the development, as an operating headquarters. Kingsburg Municipal Water Department, located about three miles to the west, is not willing to extend service to the subdivision because of the distance involved.

The record reveals some uncertainty concerning both the economic feasibility of applicant's proposal and the prospect of continued ownership and operation of the system by Dr. Bonander. The Utilities Division notes that applicant proposes to finance the initial estimated cost of the water facilities, totalling \$25,395, from his personal funds. If the intract plant, estimated to cost \$17,155, were to be financed as a main extension - not recommended by the Utilities Division for the initial unit of the system - the advances for construction would thus be 67.6 percent of the total capital. The Utilities Division has estimated that an operating cash drain of \$3,775, or about \$90 for each of the 42 lots, would result during a six-year development period (to 1975) before revenues would be sufficient to cover operational costs for the proposed service area, and recommends that a loss reimbursement agreement be required to cover out-of-pocket operating losses during the development period (Exhibit 1, pars. 19-22).

The Finance and Accounts Division, though conceding that a loss reimbursement agreement would help during the six-year development period, was of the opinion that even if all 42 lots in the tract are developed and houses are constructed, the proposed water system would still be too small to operate profitably in the long run. The staff accountant suggested, as possible solutions to the economic problem if lots are to be developed at this time, that water service might be provided by a nearby public utility or by some form of public entity whereunder operating costs would be shared by all lot owners in the tract. The record, as will be discussed later, indicates the possibility of acquisition of the system, subject to certain conditions, by the owner and operator of a number of small water utilities in the general vicinity of applicant's development.

The staff accountant, noting that though 100% equity financing of the system may be desirable from the utility's viewpoint (by giving it a larger equity base to support future rate increase requests and avoiding the cash drains that could result from refund requirements of main extension contracts), was of the opinion that in a lot-sale type development such as this the disadvantages of 100% equity financing outweigh the advantages, and that any cash drain from refund requirements could be avoided by turning the main extension contract over to the utility to be held as an investment, thus permitting its exclusion from any expansion limitation calculations pursuant to Revised Section A.2 of the Main Extension Rule. The accountant recommended denial of the application for lack of economic feasibility (Exhibit 2, par. 9). He further recommended, however, that if a certificate were to be granted the following provisions should be incorporated in the Commission's order (Exhibit 2, par. 14):

- (a) That a loss reimbursement fund be established.
- (b) That applicant be required to finance all intract facilities, i.e., Accounts 343, 345 and 348, by means of the water main extension rule.
- (c) That the developer and utility enter into an agreement which provides for developer to turn over the main extension contract to the utility to be held as an investment, with refunds being credited to proprietor's capital as they become due.

The following schedule shows the breakdown of proposed construction costs by accounts, as proposed by the staff accountant (Exhibit 2, par. 12):

KINGS RIVER ESTATES WATER COMPANY
Schedule of Proposed Construction Costs

| <u>Account</u> | <u>Description</u> | <u>Equity Financing</u> | <u>Advances</u> | <u>Total</u> |
|----------------|----------------------|-----------------------------|-----------------|-----------------|
| 301 | Intangible Plant | \$ 500 | \$ | \$ 500 |
| 306 | Land | 840 ^{1/} | | 840 |
| 315 | Wells | 1,400 | | 1,400 |
| 324 | Pumping Equipment | 2,000 | | 2,000 |
| 342 | Reservoirs and Tanks | 2,500 | | 2,500 |
| 343 | Water Mains | | 15,525 | 15,525 |
| 345 | Services | | 430 | 430 |
| 348 | Hydrants | | 1,200 | 1,200 |
| 371 | Structures | 1,000 | | 1,000 |
| | | <u>\$8,240</u> | <u>\$17,155</u> | <u>\$25,395</u> |

^{1/} Adjusted to actual cost.

We next turn to the subject, mentioned earlier, of the possible acquisition of the system by others. The record discloses that Francis H. Ferraro, a witness called by the staff, is the owner and operator of a number of small water utilities in the Fresno and Selma areas located within approximately 24 miles of applicant's development, and is interested in expanding his water utility operations in that general area. He indicated, tentatively, that he would be interested in acquiring applicant's proposed system, subject to a number of conditions: (a) that the system be

donated; (b) that a fund be created, in the sum of \$12,000 to \$15,000, to take care of cash drain and necessary additions to net plant during a development period of some seven to ten years; and (c) that he be consulted in the initial design and construction of the system to obviate later excessive maintenance or reconstruction costs resulting from installations that might be incompatible with his other systems. Ferraro stated he would not be interested in investing his own funds in a potentially uneconomic water system, and would also not be interested in land development activities in applicant's proposed service area.

Although Mr. Ferraro's tentative views, if acted upon, would appear to hold out the possibility of a more expertly operated and perhaps less economically burdened water system than that proposed by applicant, we cannot, in this proceeding, do more than note what this record discloses with respect to such an eventuality. Applicant's proposal must be considered on its own merits.

Summary, Findings and Conclusions

The Commission has had considerable experience with small water utilities that have large rate bases and few customers. Such systems are often operated at a loss for several years until the lots in the subdivision are sold. As the utility must be subsidized by the proprietor during the period of development, requests for rate relief and subsequent higher charges to customers become unavoidable. It is for this reason that the Division of Finance and Accounts representative has recommended that, if a certificate is granted herein, the intract plant should be financed in accordance with the Main Extension Rule and that equity capital should be limited to the cost of plant included in the remaining accounts, as shown by the above schedule of proposed construction costs.

Applicant's showing is not sufficient, in our opinion, to justify issuance of a certificate for the proposed water system. The financial protections suggested by the staff might tend to lessen the economic burden on applicant's utility operations during a somewhat lengthy development period, but there is no evidence in this record, by a prospective lot buyer or home builder, of a present or future need for public utility water service in the proposed service area. Moreover, applicant has failed to show that his proposal is economically feasible.

The Commission, on this record, finds that applicant has not shown that public convenience and necessity require the issuance to him of the requested certificate, or that the proposed public utility water service would be economically feasible.

We conclude, therefore, that the application should be denied.

ORDER

IT IS HEREBY ORDERED that the application of Merrill J. Bonander herein, for a certificate to construct and operate a public utility water system in the areas in Tulare County shown on Exhibits A and A-1 attached to said application, be and said application is hereby denied.

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

Dated at San Francisco California, this 21st day of JULY, 1970.

Chairman

Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

-6- Commissioner A. W. Gatov, being necessarily absent, did not participate in the disposition of this proceeding.