

sjg/vs

ORIGINAL

Decision No. 79566

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)

WESTLAKE WATER COMPANY for a certificate of public convenience and necessity to construct and operate public utility water systems in Ventura County and to issue and sell common stock.

Application No. 52657
(Filed May 28, 1971)

In the matter of the application of WESTLAKE WATER COMPANY for authority to deviate from the main extension rule.

Application No. 52658
(Filed May 28, 1971)

In the matter of the application of WESTLAKE WATER COMPANY to issue and sell \$380,000 of common stock.

Application No. 52660
(Filed May 28, 1971)

Johnston, Lucking & Bertelsen, by William A. Lucking, Jr., Attorney at Law, for applicant.
John S. Fick, Attorney at Law, and Robert Durkin, for the Commission staff.

O P I N I O N

The above-entitled applications were consolidated for hearing and a public hearing thereon was held before Examiner Rogers in Camarillo, California, on September 30, 1971, and the matter was submitted. Prior to the hearing all possible interested persons or entities were notified. There were no protests.

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Background

Westlake Water Company's (applicant) original authority was granted by Decision No. 75375, dated February 25, 1969, in Application No. 50070, which decision, among other things, granted applicant authority to provide service to Tracts 1921, 1930, 1932, 1954, 1958, 1967, 1972, 1998 and 1999, all in Ventura County, with no restriction against expansion; to establish rates for (pressure) Zone I; and to issue 131 shares of non-par value common stock, at the stated price of \$10,000 per share, for the purpose of acquiring backup plant, meters and working cash.

By Decision No. 77104, dated April 21, 1970, in Application No. 50070, the Commission authorized a larger portion of the stock sale proceeds to be used for working cash.

By Decision No. 77287, dated June 3, 1970, in Application No. 51803, the Commission authorized applicant to establish rates for (pressure) Zone II.

Inasmuch as there was no restriction in applicant's certificate against expanding to contiguous territory, applicant has expanded its system by filing an advice letter (Section 1001, Public Utilities Code).

Application No. 52657

By this application authority is sought to extend service as shown on Appendix A, attached hereto, and to issue and sell (to the parent companies) 143 shares of its common stock for \$10,000 per share to pay for the water system facilities as follows:

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NORTH RANCH - MASTER WATER SYSTEM

ZONE II

<u>ITEM NO.</u> ^{1/}	<u>DESCRIPTION</u>	<u>QUANTITY</u>	<u>UNIT PRICE</u>	<u>COST</u>
208	18" Pipeline	14,000 L.F.	14.00	\$ 196,000
210	14" Pipeline	7,200 L.F.	11.50	82,800
211	12" Pipeline	3,200 L.F.	9.00	28,800
212	12" Pipeline	7,600 L.F.	9.00	68,400
213	10" Pipeline	7,200 L.F.	8.00	57,600
217	Connect. to CMWD			20,000
219	6.0 M.G. Reservoir			350,000
221	Pressure Reg. Station			<u>10,000</u>
				\$ 813,600

ZONE III

303	12" Pipeline	6,000 L.F.	9.00	\$ 54,000
304	10" Pipeline	6,800 L.F.	8.00	54,400
305	10" Pipeline	3,600 L.F.	8.00	28,800
306	12" Pipeline	5,600 L.F.	9.00	50,400
308	12" Pipeline	4,000 L.F.	9.00	36,000
309	10" Pipeline	6,000 L.F.	8.00	48,000
310	10" Pipeline	6,800 L.F.	8.00	54,400
315	4.5 MGD Pump Station			60,000
317	2.0 M.G. Reservoir			<u>150,000</u>
				\$ 536,000
Meters				30,000
Organizational, Office and Field Equipment and Working Cash				<u>50,000</u>
				\$1,429,600

^{1/} For location of Items listed, see Exhibit D to Application No. 52657.

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Application No. 52658

Applicant alleges when applicant issues all main extension contracts now in process, the amount in the Customer Advances account will approach \$900,000 or forty-four percent (44%) of the capital structure; the Commission has been notified that the limitation of forty percent (40%) (sic) customer advances of total capital set forth in Section A2a of the main extension rule will be exceeded; and it is the purpose of the application to provide the means of avoiding the fifty percent (50%) limitation set forth in paragraph A2b of the main extension rule.

Applicant further alleges that it proposes to obtain the consent of present holders and potential future holders of certain main extension contracts who have a financial interest in applicant to forego the cash refunds due by the terms of the contract and, in lieu thereof, permit it to transfer these amounts from the Customer Advances account to Capital Surplus; Westlake Village, hereinafter Village, (a partnership composed of American-Hawaiian Steamship Company [Steamship] and The Prudential Insurance Company [Prudential] and its wholly-owned subsidiary companies) owns all of the shares of applicant and all of the main extension contracts executed by applicant; when the Customer Advances approach fifty percent (50%) of total capital, applicant will from time to time obtain written consent from the holders of main extension contracts thereafter made to treat refunds as proposed herein; and a detailed statement of the account Customer Advances and total Capital (including Customer Advances) will be forwarded to the Commission together with copies of the written consents obtained from contract holders signifying their willingness to credit refunds due them to Capital Surplus.

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Applicant requests authority to deviate from Section A2b of its main extension rule to permit applicant to take the following steps from time to time when the balance in its Customer Advances account approaches fifty percent (50%) of the capital structure of the company as defined in Rule No. 15:

Applicant will,

1. Transfer the amounts due as refunds to the Capital Surplus account.
2. Furnish the Commission with a statement showing the balances in the Customer Advances account and the other capital accounts.
3. Furnish the Commission with a list of contracts to be transferred to a sub-account of the Customer Advances account designed to reduce the balance in the principal Customer Advances account to a level below fifty percent (50%) of the capital structure.
4. Furnish the Commission with certified statements from the owners of contracts to be transferred to the sub-account. These statements will declare that the parties have a financial interest in the company and are willing to forego cash refunds and permit the company to transfer the amounts due them to the Capital Surplus account.

Application No. 52660

By this application, applicant seeks authority to issue and sell 38 shares of its \$10,000 per share stated par value common stock. It alleges that continued expansion within the service area has required and will require facilities estimated to cost \$323,400 and that these expenditures be financed by the sale of its common stock. The capital expenditures to be financed are as follows:

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ZONE I

<u>ITEM NO.</u> ^{2/}	<u>DESCRIPTION</u>	<u>QUANTITY</u>	<u>UNIT PRICE</u>	<u>COST</u>
102	16" Pipeline	5,500 L.F.	12.00	\$ 66,000
110	8" Pipeline	3,000 L.F.	7.00	21,000
111	8" Pipeline	3,500 L.F.	6.50	22,800
121	5.0 M.G. Reservoir - Completion			<u>37,000</u>
				\$146,800

ZONE II

205	1.6 M.G. Reservoir			\$126,600
302	3.0 M.G.D. Pump Station			<u>50,000</u>
				\$176,600

Organizational, Office and Field Equipment and Working Cash	<u>55,000</u>
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SOUTH RANCH - TOTAL	\$378,400
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^{2/}

For location of Items listed, see Exhibit A to Application No. 52660.

Applicant's Evidence

Applicant, a subsidiary of Steamship, was authorized in 1969 to provide water service to an area of about 2,000 acres along the easterly boundary of Ventura County, adjoining the City of Thousand Oaks. The applicant commenced service to the community, known as Westlake Village, which is an upper middle-class residential area, with homes in a \$40,000 and up range, and with its own commercial and light industrial areas, golf courses and other recreational facilities.

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On June 30, 1971, applicant was serving 1,263 metered customers.

Village is the parent of applicant. Initially, Village was wholly owned by American-Hawaiian Land Company. A 50 percent interest in Village now has been acquired by Prudential. Village started developing the lands through joint venture agreements with various independent builders. All future main extension contracts issued by applicant will be held by Village.

Certain water supply and storage facilities used to serve applicant are owned by Russell Valley Municipal Water District, which was formed and is controlled by the developers of Westlake Village, and whose boundary is co-terminus with the total projected service area of applicant. Water to serve applicant's consumers is imported from the Colorado River, and is delivered through facilities of the Metropolitan Water District and Calleguas Municipal Water District. The result is that property owners in the portion of Westlake Village served by applicant, in addition to regular monthly bills from applicant, also pay tax levies to Russell Valley Municipal Water District, Calleguas Municipal Water District, and the Metropolitan Water District.

Applicant's president testified that Village proposes to develop the area requested for certification, shown on Exhibit A hereto, as follows:

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PROJECTED 5 YEAR DEVELOPMENT PROGRAM

North Side of Freeway

<u>Year</u>	<u>Area</u>	<u>Type</u>
1972	4 D-1	An Equestrian Center
	4 D-1	300 Single Family Residences
	4 D-2	Regulation Golf Course
	4 D-2	100 Single Family Residences
1973	4 D-2	300 Single Family Residences
	4 D-4	100 Single Family Residences
	4 D-2	400 Townhouses (Around Golf Course)
1974	Tract 2071	400 Single Family Residences
	4 D-2	500 Townhouses (Along Lindero Canyon Road)
	4 D-1	11 Acres - Commercial
1975	4 B-1 &	400 Single Family Residences
	4 B-2	
	4 D-2	500 Townhouses
	4 D-2	5 Acres - Commercial
1976	4 A-3 &	300 Single Family Residences
	4 D-3	
	Tract 2047 &	500 Apartments or Townhouses
	4 A-5	

PROJECTED DEVELOPMENT SOUTH SIDE OF FREEWAY

<u>Year</u>	<u>Area</u>	<u>Type</u>
1971	Tract 2160	26 Single Family Residences
1972	Tract 2034	54 Single Family Residences
1974	D-7	100 Single Family Residences

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These developments will contain the following acreage:

ACREAGE NORTH SIDE OF FREEWAY

<u>Area</u>	<u>Acres</u>
4 D-1	420
4 D-2	696
4 D-3	87
4 D-4	50 (100 Units)
4 B-1	594
4 B-2	260
4 A-3	409
4 A-5	144
Tract 2047	75
Tract 2071	<u>210</u>
	2,945

ACREAGE SOUTH SIDE OF FREEWAY

<u>Area</u>	<u>Acres</u>
Tract 2160(1954-1 on Exhibit A)	35
Tract 2034	25 (54 Units)
D-7	<u>46</u>
	106

The witness further testified that the total plan over the five years, 1972 to 1976, inclusive, contemplates construction of 1900 single family units and 1900 townhouse units. He said that Steamship is to be the general partner and Prudential is to be the limited partner; that Steamship has a net worth of approximately \$70 million and Prudential has a net worth of approximately \$29 billion.

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Applicant's consulting engineer testified that by Application No. 52660, applicant seeks authority to issue 38 shares of its common stock to Village for \$10,000 per share for the purposes hereinbefore referred to. He said that the 16-inch pipeline, Item No. 102 (see page 6 herein) has been constructed and the applicant has the obligation to pay therefore; that all items listed in Application No. 52660 are part of applicant's basic backup facilities.

The engineer further testified, relative to Application No. 52657, that the applicant proposes to extend as testified by applicant's president; that this expansion will be phased over five years including 1976; that the scheduled improvements are listed on Exhibit No. 2 herein.^{3/} The witness testified that all stock is to be issued to Village by applicant.

The engineer testified relative to Application No. 52658 that the proposal to deviate from the main extension rule (Rule A2b) is the most feasible method of securing authority to extend without violating the 50 percent rule.

A hydraulic engineer of the Commission presented a report (Exhibit No. 3) showing the following:

Water Supply and Facilities

Applicant's total water supply is Colorado River water, delivered by Russell Valley Municipal Water District. The present supply for the initial development as well as supplies for the requested area are delineated on Exhibit "E" attached to Application No. 52657. The applicant has a maximum supply of 36 cubic feet of water per second (16,158 gallons per minute) which is adequate to meet the requirements of the initial and proposed service area at full development.

^{3/} Facility numbers on Exhibit No. 2 refer to items shown on Exhibit D on the application.

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Applicant has constructed a 5-million gallon reservoir to serve Zone I of the initial development. Two reservoirs with a combined capacity of 8 million gallons are proposed for construction to serve the additional area requested in Application No. 52657.

Principal transmission and distribution mains are from 10 inches to 18 inches in diameter and meet the design criteria of General Order No. 103. Distribution mains are designed for each subdivision and are reviewed by applicant's engineers so that the overall system design is compatible.

Results of Operations

The average number of metered customers has increased from 409 for the year 1969, to 860 for the year 1970, and there were 1,263 metered customers as of July 1, 1971.

The following tabulation is a comparison by the staff engineer of the estimated results of operation with an average of 1,300 customers for the year 1971 and with 3,000 customers for the year 1973:

Item	Estimated Year	
	1971	1973
Operating Revenues	\$184,700	\$436,000
Deductions		
Operating & Maint. Exp.	159,900	285,800
Depreciation Expense	26,300	70,200
Taxes other than Income	16,900	70,100
Taxes based on Income	100	2,300
Total Deductions	\$203,200	\$428,400
Net Revenue	(18,500)	7,600
	(loss)	

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The engineer estimated revenues by assuming an average use per customer of 3,000 cubic feet per month. For the year 1971, there were 1,250 customers estimated in Zone I, and 50 customers in Zone II. For the year 1973, there were 2,000 customers estimated in Zone I and 1,000 customers in Zone II.

The witness estimated the operating expenses, including the following:

- (a) The cost of purchased water as set on July 1 of each year, by Calleguas Municipal Water District, plus a \$2 per acre foot charge by Russell Valley Municipal Water District.
- (b) The cost of electric power purchased for booster pumps which he estimated by using the 1970 recorded data to determine cost per acre foot of water purchased and applying this unit cost to the estimated water purchased in 1971 and 1973.
- (c) The water treatment costs which include the additional number of samples for bacterial analysis required by customer growth.
- (d) The transmission and distribution expenses which reflect the addition of utility plant.
- (e) The estimated customer accounts, showing the growth in number of meter readings, billings and postage.
- (f) The estimated administrative and general expenses which include average year expenses extrapolated on a per customer basis.

The witness said estimated depreciation expenses are based on a composite gross plant rate of 2.2 percent; Ordering Paragraph No. 9 in Decision No. 75375, authorized applicant to use a 3 percent composite gross plant rate; and the staff review in the current proceeding shows that applicant is using plant items with service lives substantially longer than estimated in the prior proceeding.

He said estimated taxes, other than income taxes, include property taxes, payroll taxes and franchise taxes and estimated income taxes are computed for each year on a normal basis and do not consider any carry-over credit for losses in prior years.

Utility Plant

The witness further testified that applicant had installed the major plant items for service to customers in Zone I and a portion of Zone II in the initial development as of June 30, 1971; these major plant items are a 5-million gallon reservoir, a hydro-pneumatic pressure tank and electric pump, and pipelines from 10 inches to 24 inches in diameter which are not included in subdivision distribution systems; the backbone pipelines larger than 10 inches in diameter in the initial development totaled 60,225 feet as of June 30, 1971; applicant's estimate of backbone pipelines to be installed in the requested area is 78,000 feet as set forth on page 4 of Application No. 52657; and that when completed, these mains will comprise an integrated water distribution system interconnected to three storage reservoirs, three source of supply connections to Russell Valley Municipal Water District, a major pumping station, and all subdivision distribution systems.

The engineer said the staff has not computed a rate of return for either of the estimated years because there will be no net revenue until applicant is serving more than 3,000 customers or in 1973, if the present growth trend continues for two years.

He said the staff has reviewed applicant's request for a deviation from its filed main extension rule as set forth in Application No. 52658. Applicant's proposal to identify the agreements and refunds as they are credited to its Capital Surplus account instead of being paid in cash to the holders of the refund agreement will provide an accessible method of identifying such transactions for future studies by the staff.

The engineer concluded that applicant's request for a certificate of public convenience to serve additional areas will make water service available to more than 3,000 customers in the normal course of its business growth.

A Financial Examiner for the Commission disagreed with the Hydraulic Branch and made a report which is filed herein as Exhibit No. 4. He said applicant has operated at a loss since its inception; the net loss from operations in 1970 was approximately \$50,000; a loss of similar magnitude may be anticipated for 1971; these losses continue despite the fact that some utility expenses (e.g., accounting, customer billing, vehicle maintenance) are borne by the developer affiliate instead of by the applicant; and despite the losses that the company has incurred, customers are paying substantial water bills, plus significant water tax assessments on their property. These conditions, he said, raise serious questions concerning the level of water rates that may be required in the future to cover all expenses and provide applicant a return on its investment and the development already has undergone one major change in ownership during its brief history when Steamship sold a one-half interest to Prudential. It is conceivable, he said, that at some time in the future, if either ownership or development plans change again, the applicant may appear before the Commission demanding compensatory rates and a full return on its investment. Under such conditions, he said, it is possible that the Commission staff might propose a partial saturation adjustment or a lower than normal rate of return, but such expedients are never completely satisfactory and result in dissatisfaction both by the utility which feels that it is being denied a portion of the earnings to which it is entitled, and by customers who may feel that resulting

rates are excessive and that they were misled by not being apprised of the probable increase in water rates at the time of purchase of their properties. The witness said the problems are underscored in this instance by the fact that water facilities in the portion of the Westlake Village development lying in Los Angeles County have been donated to Las Virgenes Municipal Water District, and no return on such plant will ever be required.

The witness said the following computations from schedules on Exhibit No. 4 herein, illustrate the problem even more clearly:

		<u>Dec. 31, 1970</u>
Utility Plant	(Schedule B)	\$ 1,526,147
Depreciation Reserve	" "	<u>(40,581)</u>
Net Utility Plant	" "	\$ 1,485,566
Advances for Construction	" "	<u>(281,179)</u>
Net Plant Investment	" "	<u>\$ 1,204,387</u>
7% return on \$1,204,387	= \$ 84,307	
Income taxes	84,307	
Net Loss - 1970 (Schedule A)	<u>50,415</u>	
	\$219,029	
Actual gross revenues - 1970 (Schedule A)		\$ 157,787
Additional gross revenues required to produce 7% rate of return in 1970		<u>219,029</u>
Total Revenue Requirement		\$ 376,816

The witness said the foregoing tabulation shows that to provide a 7 percent return on plant investment in 1970 it would have been necessary to increase gross revenues from \$157,787 to \$376,816. This, he said, would result in monthly water bills of about \$32 per customer, exclusive of water district tax levies of an additional \$15 per dwelling per month. These figures, he conceded, are only

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rough approximations, but, he said, their inexactness does not detract from the seriousness of the problem that they point up. They show clearly why an alternate method of financing, other than the issuance of additional stock as proposed by applicant should be used to finance plant additions that will be required hereafter.

The witness said the request in Application No. 52658 for authority to deviate from the main extension rule by crediting refunds on main extension agreements to capital surplus when such agreements exceed 50 percent of total capitalization should be denied because the deviation would be totally ineffective in its attempt to solve applicant's cash flow problems.

The witness said his understanding of the deviation request is that it is intended that whenever the percentage of advances exceeded 50 percent, cash refunds would be suspended on a designated group of main extension agreements. He said this would be a difficult arrangement to administer; it would mean that the balance of contracts designated as "non-cash refund contracts" would change with every increase in capital stock, as additional backup plant was constructed; if large portions of the backbone system for the northern area were constructed initially, however, it is unlikely that the deviation would become effective for many years; that, the deviation would have no effect on the cash drain from refunds that the utility is incurring right now and will continue to experience in the future on those agreements not designated as "non-cash refund contracts"; and this is the problem which requires financial relief and which the proposed deviation totally ignores.

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The witness said that the purpose in imposing a restriction on the percentage of main extension agreements that a utility may have was to prevent utilities from incurring refund obligations so large as to jeopardize the financial solvency; and that the 40 percent and 50 percent limitations are simply "rule-of-thumb" figures to require a utility to re-examine its probable future obligations and to develop a financial plan that would permit orderly, continuing expansion.

The Financial Examiner made the following recommendations:

These refund obligations will not really become a problem for applicant as long as the main extension agreements continue to be held by its parent company, as it is unlikely that the parent would jeopardize the financial solvency of its own subsidiary by demanding cash payment of refunds. The only restrictions that the Commission staff accountants would suggest be imposed on applicant in connection with its continuing expansion by use of main extension agreements are:

- (a) Applicant should enter into contracts only with its parent, Westlake Village, (or contracts with joint ventures of Westlake Village and various builders, which contracts have been assigned to Westlake Village) unless prior Commission authorization has been obtained.
- (b) Main extension agreements should provide that the agreements will not be sold, transferred or assigned (other than to the utility itself) without a letter of authorization from the Secretary of the Commission.
- (c) Main extension agreements should provide that the utility may, at its option, elect to credit refund obligations to its capital surplus account instead of paying them in cash.

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- (d) Backup water plant installed in the future should be financed by main extension contracts that provide for refunds on a percentage of revenue basis. These contracts should be transferred to the utility to be held by it as investments, with refunds being credited to capital surplus as earned. If, at some time in the future, the density of the development would permit the utility to earn a fair return on a larger investment with reasonable rates for water service, it may apply to the Commission for permission to convert all or a portion of these main extension contracts into stock or interest-bearing debt.

The witness said that with the foregoing limitations, which provide maximum flexibility and minimum administrative burden, the Commission staff accountants see no reason for imposing any additional restrictions on the company's further expansion by use of main extension agreements at this time. The utility should endeavor to re-write its existing main extension contracts to include the above provisions.

As an alternative to paragraphs a, b, and c, the witness recommended that applicant be directed to negotiate main extension agreements which provide that in-tract water facilities installed in the future will be donated to the utility. (Such donations are required in the portion of the Westlake Village development served by Las Virgenes Municipal Water District.)

Prior to the hearing, a copy of Exhibit No. 4 (report of the staff financial witness) was delivered to applicant's counsel. He stated that the applicant had no objection to recommendations (a), (b) and (c) set forth on page 17 hereof. However, during the course of the hearing the financial examiner's report was revised to include paragraph (d) set forth on page 18 hereof.

In rebuttal to this latter recommendation, applicant's engineer testified that it is impractical to use main extension agreements as a means of financing such facilities as reservoirs and pumping plants; a company cannot design a pumping plant and storage facility merely to serve one tract; and the utility would have to obtain from the developer his pro rata share of the cost of the reservoir that would be required to serve a much larger area and subsequently attempt to secure from later developers using the facility a portion of the costs.

Refunds to be made as set forth in paragraph (d) could be more effectively administered by applicant using the proportional cost method in place of a percentage of refunds.

The Commission finds that:

1. Applicant is a public utility water corporation furnishing domestic water to a portion of Ventura County immediately west of the eastern boundary of said county.

2. By Application No. 52657, applicant requests authority to extend service to an area contiguous to its existing service area and to issue to its parent company 143 shares of its common stock at a stated value of \$10,000 per share to pay for a master water system including mains, pumping stations and reservoirs, plus organization costs and working cash.

3. By Application No. 52658, applicant requests authority to deviate from Section A2b, the applicant's filed main extension rule, as specified on page 5 of this opinion.

4. By Application No. 52660, applicant requests authority to issue and sell 38 shares of its \$10,000 per share stated value common stock to Village for funds with which to continue construction of its plant within its existing service area.

5. Applicant's parent, Village, proposes to develop over 3,000 acres of land between 1972 and 1976 for various types of residential and commercial uses. Village will secure its water supply through a water system installed and engineered by applicant.

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6. All of the subdivisions proposed to be developed in applicant's service area will be owned and developed by applicant's parent, Village. All main extensions in all subdivisions in the proposed service area will be financed by Village.

7. All backup plant in the completed proposed service area will be paid for by applicant with funds furnished by Village.

8. Applicant's request contained in Application No. 52660 for authority to issue to Village \$380,000 of common stock is reasonable and should be authorized. The funds derived from this stock issue will reimburse Village for monies heretofore loaned to applicant for construction purposes, or will provide funds to applicant with which to construct basic plant in its existing certificated area. None of the funds will be used to construct in-tract facilities.

9. Applicant's request for authority to extend its service area between 1972 and 1976 is reasonable and applicant should be authorized to issue eight shares of its \$10,000 per share common stock. The funds to be derived from this stock issue are for the purposes of providing customers' meters, office and field equipment and working cash.

10. Application No. 52658 should be granted subject to the conditions requested by the Finance and Accounts Division except paragraph (d) on page 18 of the opinion herein, as contained in the order herein.

11. The proportional cost method of refunding main extension advances for backup plant should be more practical to administer than the percentage of revenue method.

12. Applicant is ready, willing and able to furnish public utility water service to the proposed service area shown on Appendix A hereto.

13. Applicant has on file rates for pressure zones I and II. If applicant extends service to higher elevations, applications for authority to establish rates therefore should be filed.

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14. Public convenience and necessity require that applicant extend service to the entire area shown on Appendix A hereto.

Conclusions

We conclude that the applications should be granted as requested subject to the conditions contained in the order herein.

O R D E R

IT IS ORDERED that:

1. Westlake Water Company, a California corporation, is granted a certificate of public convenience and necessity to construct and operate a public utility water system in that portion of Ventura County contiguous to its existing service area and including all of the territory shown on Appendix A, attached hereto.

2. Within the applicable elevations specified in Decision No. 77287, dated June 3, 1970, in Application No. 51803, service shall be provided by applicant at the rates and charges specified in said decision. If service is provided at higher elevations, applicant shall secure authority from this Commission for the establishment of appropriate rates.

3. Applicant, after the effective date hereof, is authorized to issue not to exceed 46 shares of its common stock at the stated value of \$10,000 per share to Westlake Village for the purposes specified in the opinion herein.

4. Applicant is authorized to deviate from Section A2b of its main extension rule to permit it to take the following steps from time to time when the balance in its Customer Advances account approaches 50 percent (50%) of its capital structure as defined in Rule No. 15:

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- (a) Transfer the amounts due as refunds to the Capital Surplus account.
- (b) Furnish the Commission with a statement showing the balances in the Customer Advances account and the other capital accounts.
- (c) Furnish the Commission with a list of contracts to be transferred to a sub-account of the Customer Advances account designed to reduce the balance in the principal Customer Advances account to a level below fifty percent (50%) of the capital structure.
- (d) Furnish the Commission with certified statements from the owners of contracts to be transferred to the sub-account. These statements shall declare that the parties have a financial interest in the company and are willing to forego cash refunds and permit the company to transfer the amounts due them to the Capital Surplus account.

The authorization granted to deviate from Main Extension Rule No. 15 as above-stated, is subject to the further restrictions that:

1. Applicant shall contract only with its parent, Westlake Village, (or contracts with joint ventures of Westlake Village and various builders, which contracts have been assigned to Westlake Village) unless prior Commission authorization has been obtained.
2. Main extension agreements shall provide that the agreements will not be sold, transferred or assigned (other than to the utility itself) without a letter of authorization from the Secretary of the Commission.

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3. Backup water plant installed in the future shall be financed by main extension contracts that provide for refunds on a proportionate cost basis. These contracts shall be transferred to the utility to be held by it as investments with refunds being credited to capital surplus.

5. Applicant shall file with the Commission a report or reports as required by General Order No. 24-B, which order, insofar as applicable, is made a part of this order.

This order shall become effective when Westlake Water Company has paid the fee prescribed by Section 1904.1 of the Public Utilities Code, which fee is \$920.00.

Dated at San Francisco, California, this 11th day of JANUARY, 1972.

[Signature]

Chairman

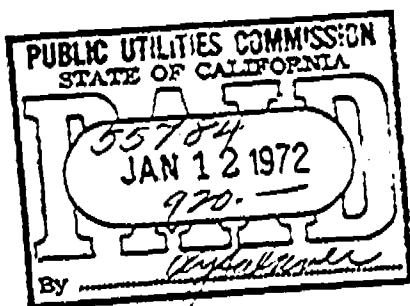
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Commissioners



APPENDIX A

WESTLAKE WATER
COMPANY

-  ORIGINAL CERTIFICATED AREA.
-  CERTIFICATED--ADVICE LETTER NO 2.
-  PROPOSED ANNEXATION TO
CERTIFICATED AREA.

