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Decision No. 80508

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

CAL-AURIUM, a limited partnership,

Complainant,

vs.

BOLSA KNOLLS WATER CO., INC.,

Defendant.

Case No. 9321
(Filed February 3, 1972)

George S. Kelly, for complainant.
Clayton B. Neill and Robert F. Arenz, for defendant.
Sam E. Winegar, for the Commission staff.

O P I N I O N

Complainant Cal-Aurium, a limited partnership, seeks an order requiring defendant Water West Corporation[1/] to:

1. Enter into a main extension agreement with complainant, guaranteeing eventual full refund of advances for construction.

2. Limit engineering cost for the main extension to $555.30.

3. Eliminate overhead charges of $1,137.14 from the amount chargeable to the main extension.

4. Refund to complainant $2,709 excess advance plus interest.

Public hearing was held before Examiner Catey at Monterey on June 7, 1972. Testimony on behalf of complainant was presented by one of complainant's general partners. A Commission staff engineer presented Exhibit No. 1, a summary of the staff investigation of the complaint. The matter was submitted on June 7, 1972.

1/ Consolidation of Bolsa Knolls Water Company and three other water utilities into Water West Corporation was authorized by Decision No. 79185, dated September 28, 1971, in Application No. 52832. The consolidation was effected December 31, 1971.

Complainant and Defendant

Complainant is a limited partnership engaged in, among other things, the development of Unit No. 1, Country Club Meadows, Monterey County.

Defendant is a public utility water corporation which is the successor to the former Bolsa Knolls Water Company (Bolsa), serving an area near Salinas, Monterey County. Unit No. 1, Country Club Meadows, is within the service area taken over from Bolsa.

History

Early in 1969, a predecessor of complainant requested of Bolsa an estimate of the cost to extend Bolsa's system to serve the 28-lot Unit No. 1 of Country Club Meadows. An engineering firm affiliated with Bolsa prepared pipeline maps showing some 2,220 feet of on-site mains and 4,500 feet of approach main connecting to Bolsa's then existing system.

The original developer of Country Club Meadows did not proceed with the planned development. One of the partners in the original group reacquired the property along with others in the partnership which is complainant herein. Complainant then resumed negotiations with Bolsa for extension of water mains.

On March 19, 1971, Bolsa and complainant signed a main extension contract for Unit No. 1, Country Club Meadows. The terms of the agreement deviate from the uniform water main extension rule in that part of the cost would be advanced by complainant, subject to refund over a period of years, but part would be contributed, not subject to potential refund. Also, for refunding purposes, the number of customers for which the extension was designed is stated in the contract to be only the 28 potential in-tract customers. The effective date stated in the contract is the "date of PUC resolution approving indicated financial arrangements."

The advance and contribution provided for in the main extension contract were not payable in full directly to Bolsa by

complainant. Rather, complainant was to pay the contractor who installed the extension and pay Bolsa directly only for design, supervision and overheads related to the extension. The water mains were installed and complainant paid the contractor but, because of the controversy between Bolsa and complainant, final settlement between them has not been effected.

Deviation from Main Extension Rule

Defendant contends that the cost of the approach main should be contributed rather than advanced by complainant, because of the long distance between Country Club Meadows and the rest of defendant's water system. Dividing the total cost of on-site and approach mains by only the number of lots in Unit No. 1, the investment per customer would be about $1,200, as compared with an average of perhaps $400 for the rest of the system.

The water main extension rule which this Commission has prescribed for all regulated water utilities contemplates that there will be approach mains required for some developments. Section C.1.a. of the rule requires advance of the "...cost of the extension to be actually installed, from the nearest utility facility..." (emphasis added).

Inasmuch as refunds of advances are based upon 22 percent of revenues derived from customers served directly by an extension, the long approach main would not result in any more rapid refunds under the main extension rule than under defendant's proposed deviation, assuming no customers to be served directly by that approach mains. If, on the other hand, the intervening territory develops and some new customers are served directly by the approach main, it is reasonable that the advance be refunded more rapidly. The main extension rule accomplishes this.

Aside from the rate of refunding, defendant is concerned with the total amount ultimately to be refunded. Section C.2.e. of the main extension rule provides that, after the normal 20-year expiration date for refunds, the then unrefunded portion of the

advance will be refundable in five additional annual installments if "...80% of the bona fide customers for which the extension or special facilities were designed are being served therefrom...". Defendant interpreted this to mean that only 23 customers (80 percent of the lots in Unit No. 1) would be needed to qualify complainant for the guaranteed ultimate refund of the full advance for both on-site and approach mains. This is not correct. Section C.1.a. specifically refers to "...the main required to serve both the new customers and a reasonable estimate of the potential customers who might be served directly from the main extension..." (emphasis added). Thus, the number of customers for which the extension was designed would be the number of lots in Unit No. 1 plus a reasonable estimate of the potential new customers along the route of the approach main who could be supplied by service pipes directly connected to that main. Guaranteed ultimate full refund of the total advance would therefore require a reasonable average customer density on all of the mains covered by the advance.

Exhibit No. 2 shows that 2,220 feet of in-tract mains were required to serve 28 lots, resulting in a potential in-tract customer density of about one customer per 80 feet of in-tract main. Page 2 of Exhibit "A" attached to the filed complaint shows that some of the property facing the approach main on San Juan Grade Road already has been split into lots of about 75-foot frontage whereas many others are still very large. There is no way of determining with any degree of accuracy how many customers ultimately will be served directly from the approach main. Even with allowances for street intersections, corner lots served from side streets, and some property which may never be split into smaller parcels, such as the site of a local church, it is not unreasonable to assume the same ultimate density on the approach main as within Unit No. 1. This assumption would result in about 53 customers along the 4,500 feet of approach main, or about 27 customers per mile on each side of San Juan Grade. We will adopt the derived estimate of 53 customers as reasonable.

It would not be feasible to install service lines along the approach main at this time. The final configuration of lots and side streets is not yet determinable. Further, although complainant will be entitled to refunds based upon revenues received from customers along the approach main, it would not be reasonable to require complainant to advance the cost of future service connections, some of which will not be needed for many years. Instead, it is more appropriate for defendant to pay for the installation of service connections as needed on the approach main and to defer refund of 22 percent of revenue from each such service until the cost of the service connection has been offset.

Inasmuch as the provisions of defendant's main extension rule incorporate adequate safeguards against the utility's investment in a speculative and uneconomical extension, as hereinbefore discussed, we concur with the recommendation of the staff engineer that a standard main extension contract be utilized, except that we will direct and authorize a deviation to the extent that complainant will not be required to advance the cost of future service connections from the approach main and defendant will offset the cost of such service connections against related percentage-of-revenue refunds.

Fire Hydrants

In conjunction with the main extension, defendant had included as part of the design certain piping and fire hydrants requested by the Fire Chief of Salinas Rural Fire Department. After installation of all of the underground facilities by complainant's contractor, the fire department found that it would not be able to pay the monthly hydrant charges prescribed by defendant's tariffs. Defendant and complainant have agreed that the cost of certain of the facilities should be credited to complainant. In Exhibit No. 1, the staff engineer summarizes those costs, totalling $2,483.

Engineering and Overheads

Defendant has billed complainant $1,531.55 for engineering services performed in connection with the design, estimating, planning

and inspection of the extension to serve Unit No. 1. In Exhibit No. 1, the staff engineer summarizes his analysis of the engineering costs, and recommends that the engineering charges be reduced to $1,379.20.

Defendant claims general overheads of three percent of the construction cost. In Exhibit No. 1, the staff engineer reviews this proposed charge in conjunction with the engineering costs. He concluded that the proposed overhead charge of $1,125.58 is reasonable and is justified.

Neither defendant nor complainant took exception to the staff engineer's recommendations on engineering and overhead charges related to the extension. Those recommendations are adopted herein.

Excess Extension

Defendant required, as a portion of the on-site plant, the installation of approximately 200 feet of main in San Juan Grade Road, north of Augusta Drive, as shown on Exhibit "A", page 1, attached to the filed complaint. The staff points out in Exhibit No. 1 that there is no immediate need for this section of line. No customers within the subdivision will be served by this short extension.

We do not question the prudency of installing this section of the extension because it will be needed in the future if and when further extensions are made along San Juan Grade Road, northeast of Unit No. 1. The only issue is to determine whether the cost of the short extension should be included in the amount advanced by complainant or should be paid for by defendant.

Section A.3.c. of defendant's main extension rule requires the utility to pay its pro-rata share of costs "...If the utility, at its option, should install facilities...resulting in a greater footage of extension than required for the service requested..." (Emphasis added). On the other hand, Section A.4.d. of the main extension rule provides that "...When an extension must comply with an ordinance, regulation or specification of a public authority, the estimated and adjusted construction costs of said extension shall be based upon the facilities required to comply therewith." (Emphasis added.)

Defendant argues that it is customary procedure for the county to require that the full piping be done in any subdivision by the developer. Defendant believes that it was following the dictates of the County Road Department, but presented no evidence that the short extension was, in fact, required in this instance by county authorities. In the absence of such evidence, we will adopt the staff engineer's recommendation that defendant should pay for the short extension.

Summary

The amount of advance required for Unit No. 1 pursuant to defendant's main extension rule is as follows:

Item	Amount
Installation by Contractor	$37,519.40
Engineering	1,379.20
Overheads	1,125.58
Less: Fire Hydrant Adjustment	(2,483.00)
Excess Footage Adjustment	(952.00)
Net Advance	$36,589.18
(Deduction)	

Inasmuch as complainant has paid $37,519.40 to the contractor and should be liable for only $36,589.18 as an advance, defendant should reimburse complainant for $930.22 of the cost, as recommended by the staff engineer, plus interest. The order herein so provides.

Findings and Conclusion

The Commission finds that:

1. A water main extension has been installed to serve complainant's Unit No. 1, Country Club Meadows, Monterey County, from defendant's Bolsa Knolls system.

2. Complainant has paid $37,519.40 of the cost of the extension.

3. Under defendant's main extension rule, only $36,589.18 should have been advanced by complainant, subject to potential refund.

4. A reasonable estimate of the number of customers who might ultimately be served from the portion of the extension covered by complainant's advance is 81.

5. It will be reasonable not to add to the advance required of complainant the cost of future service connections along the approach main, provided the cost to defendant of such service connections is offset before percentage-of-revenue refunds related to those services are payable to complainant.

The Commission concludes that defendant should offer a revised main extension contract to complainant and refund the excess $930.22 advanced by complainant.

O R D E R

IT IS ORDERED that:

1. Within ten days after the effective date of this order, defendant Water West Corporation shall offer complainant Cal-Aurium a main extension contract in the standard form prescribed by defendant's tariffs, covering the portion of the extension installed to serve Unit No. 1, Country Club Meadows, Monterey County, including the approach main from defendant's system on Rogge Road and the in in-tract mains, but excluding the portion on San Juan Grade Road north of Augusta Drive.

2. The contract prepared pursuant to the foregoing paragraph of this order shall provide:

a. The property to be served is Unit No. 1, Country Club Meadows and any lots supplied by service lines directly connected to the approach main from Rogge Road.

b. The cost to be treated as an advance subject to potential refund is $36,589.18.

c. For refunding purposes, the number of customers for whom the extension is designed shall be considered to be 81.

d. The effective date of the contract is March 19, 1971.

e. The cost to be treated as an advance subject to potential refund does not include any amount for cost of future service connections along the approach main and, in recognition of this, the cost to defendant of each such

service connection shall be offset against percentage-of-revenue refunds related to that service before such refunds are payable in cash.

3. Upon complainant's signature and return of the main extension contract, defendant shall refund the excess amount of $930.22, plus interest at the rate of 7 percent per annum from March 19, 1971 to the date the contract is offered to complainant by defendant.

4. Within ten days after the excess advance has been refunded, defendant shall file in this proceeding two copies of the executed contract and a written statement of:

a. The date the contract was offered to complainant.

b. The date the contract was returned by complainant.

c. The amount of excess advance, including interest, returned to complainant.

5. Except for the relief provided herein, the complaint is dismissed.

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

Dated at San Francisco, California, this 19th day of SEPTEMBER, 1972.

President

Commissioners

Commissioner Thomas Moran, being necessarily absent, did not participate in the disposition of this proceeding.