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ORIGINAL

Decision No. 81016

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of LONG CANYON WATER COMPANY)
for a certificate of public convenience)
and necessity to operate as a public)
utility and to construct facilities and)
to issue securities. }

Application No. 53344
(Filed May 22, 1972;
amended June 7, 1972)

Deadrich & Bates, by Kenneth H. Bates, Attorney at
Law, for applicant.
Robert C. Durkin and John Gibbons, for the
Commission staff.

O P I N I O N

This is an application by Long Canyon Water Company (Long Canyon) seeking a certificate of public convenience and necessity to construct and operate a public utility water system and authority to issue common stock.

A duly noticed public hearing was held in this matter before Examiner Donald B. Jarvis in Bakersfield on October 25, 1972. It was submitted subject to the filing of a late-filed exhibit which was received on November 15, 1972.

Long Canyon seeks authority to operate in Kern County near the southeast corner of Lake Isabella where Highway 178 intersects Sierra Way. If the application is granted, Long Canyon proposes to issue all of its common stock to its president, George M. Prince, Sr. Initially Long Canyon proposes to serve an area known as Tract 3428 and to sell surplus water to other water companies in the area. Tract 3428 is being developed by Kern Valley Land, a corporation, as a subdivision for privately owned mobile homes and trailer coaches. Kern Valley Land's principal officers are the sons of George M. Prince, Sr.

The George M. Prince Family Trust owns property to the north and south of Highway 178 in the area here under consideration. The characteristics of the land on each side of the highway differ greatly. To the south there is an alluvial fan with a very limited water supply. To the north there is a flood plain with a good supply of water. Tract 3428 is located south of Highway 178. It encompasses 71 lots. Long Canyon proposes to serve Tract 3428 from a well located south of Highway 178 which is capable of pumping 150 gallons per minute. The Prince Trust has agreed to transfer to Long Canyon a well north of Highway 178, which is capable of pumping 4,000 gallons per minute. In addition to serving the 71 lots in Tract 3428, Long Canyon proposes to sell water in bulk to certain neighboring mutual water companies, a point hereinafter discussed. Long Canyon also proposes to install a 42,000 gallon tank at an appropriate elevation at the south end of Tract 3428. The pump will be controlled by a float switch which will be set so that 1,000 barrels of water storage for fire flow will be maintained in the tank at all times.

The Commission's hydraulic staff recommended that the application be granted with certain conditions, the primary one being that the subdivider pay the utility \$120 at the time each lot is sold to be put into a fund to cover out-of-pocket operating losses of Long Canyon. The Commission's finance and accounts staff initially opposed the application on the ground that Long Canyon was designed to serve an uneconomical unit and that by denying certification the Commission would compel the subdivider to obtain water from an existing public utility, or cause the formation of a mutual water company which would better serve the long range needs of the customers in the area. However, after hearing testimony adduced at the hearing, a finance and accounts staff witness indicated that he thought Long Canyon should be granted a certificate with conditions imposed thereon. These conditions included those proposed by the hydraulics staff plus a requirement that the subdivider deposit \$10,000 into an interest bearing escrow account for 20 years to further guarantee any operating losses of Long Canyon.

The area here under consideration is located near Lake Isabella. While there has been some consolidation of smaller public utility water companies in the Lake Isabella area, none has occurred near Tract 3428. The subdivider contacted five public utility water companies in the general area and none was interested in serving Tract 3428. Dominguez Water Company, however, has agreed to operate the system on a contract basis.

The record indicates that in the area south of Highway 178 various mutual water companies were without water or short of water. Long Canyon indicated that it did not desire to take over and incorporate these mutuals into its system because they were not constructed in accordance with the minimum requirements of General Order No. 103. Long Canyon will, however, sell water in bulk to the mutuals. In addition, numerous property owners in the area indicated their support for the application. Some of them indicated that, if the application were granted, they would seek service from Long Canyon in accordance with the Main Extension Rule.

A hydraulics staff engineer testified that, in his opinion, the revenues from Tract 3428, based on the proposed rates, would in 7 years be sufficient to cover the out-of-pocket costs in operating and maintaining the Long Canyon water system. He did not, in making this estimate, consider the revenue from bulk sales of water.

Long Canyon presented evidence that the best use for the area south of Highway 178 would be for low density housing. Long Canyon presented an Environmental Impact Statement which indicates that the construction and operation of the water system would have minimal impact on the area. There was also received in evidence Ordinance No. F-165 in which the Board of Supervisors of Kern County granted a franchise authorizing the construction of the water system.

If the certificate herein sought was limited to the sole purpose of furnishing water to the 71 lots in Tract 3428, it would be a close question as to whether it should be granted. Long Canyon, however, seeks a certificate for a larger area. Granting the certificate will result in two wells with a capacity of producing 4,150 gallons per minute being dedicated to the public use in an area with a shortage of water. Long Canyon will engage in the bulk sale of water and extend within its service area under the Main Extension Rule. The revenue from the bulk sales of water together with the revenues from Tract 3428 should make the operations of the company economically feasible. In the circumstances the Commission is of the opinion that the certificate should be granted with the imposition of the conditions suggested by the staff.

Applicant also seeks authority to issue an amount not to exceed 600 shares of its \$100 par value common stock for the cost of construction and backup facilities for the proposed water system. The estimated cost of such facilities is \$57,823. The finance and accounts staff does not dispute the estimate but contends that all the water mains should be financed by means of the Main Extension Rule rather than equity capital. Since Long Canyon and Kern Valley Land (the tract developer) are under common control, if the developer transfers the main extension contract to the utility to hold as an investment, with refunds being credited to capital surplus as they are earned, Long Canyon would be in a better financial position because refund requirements would not result in any cash drain. This would be in the interest of future customers. If water mains are excluded from the aforesaid estimate, the amount remaining for construction and backup facilities is approximately \$34,000. In the circumstances, Long Canyon will be authorized to issue not more than 400 shares of its common stock. No other points require discussion. The Commission makes the following findings and conclusions.

Findings of Fact

1. Long Canyon proposes to construct and operate a public utility water system in Kern County near the southwest corner of Lake Isabella where Highway 178 intersects Sierra Way.

2. Long Canyon initially proposes to serve an area known as Tract 3428, which consists of 71 lots, and to sell surplus water to other water companies in the area.

3. It is proposed that the sole shareholder of Long Canyon will be George M. Prince, Sr.

4. Tract 3428 is being developed by Kern Valley Land, a corporation, as a subdivision for privately owned mobile homes and trailer coaches. The sons of George M. Prince, Sr., are the principal officers of Kern Valley Land.

5. The George M. Prince Family Trust owns property to the north and south of Highway 178 in the area here involved. The characteristics of the land on either side of the highway differ greatly. To the south there is an alluvial fan with a very limited water supply. To the north there is a flood plain with a good supply of water. Tract 3428 is located south of Highway 178.

6. Long Canyon proposes to serve Tract 3428 from a well south of Highway 178, which is capable of pumping 150 gallons per minute. The water from the well meets the requirements of the California Department of Public Health.

7. The Prince Trust owns, and has agreed to transfer to Long Canyon, a well north of Highway 178, which is capable of pumping 4,000 gallons per minute. With minor modifications, the well will meet the requirements of the California Department of Public Health.

8. Long Canyon has entered into an agreement with Dominguez Water Company, a public utility water corporation, which provides that if the authority requested herein is granted, Dominguez will operate the system for Long Canyon.

9. Long Canyon has the ability, including financial ability, to construct and operate the proposed water system.

10. The construction and operation of the proposed water system will have a minimal impact on community values, recreational and park areas, historical and aesthetic values, and the environment in the area.

11. There are various mutual water companies in the area south of Highway 178 which are without or short of water. Granting the application would benefit those mutual water companies because Long Canyon is able and willing to sell them surplus water in bulk.

12. Public convenience and necessity require that Long Canyon be authorized to construct and operate a public utility water system as hereinafter set forth.

13. The public interest and the long range needs of the customers in the area require that the certificate herein granted be conditioned on Kern Valley constructing the water mains for the initial development of Long Canyon under a main extension agreement and donating and transferring said agreement to Long Canyon.

14. The public interest and the long range needs of the customers in the area require that the certificate herein granted be conditioned on Long Canyon depositing in an interest bearing account an initial amount of \$10,000 plus an additional \$120 upon the initial sale or transfer of any lot within Tract 3428, as hereinafter provided.

15. Long Canyon should be authorized to issue to George M. Prince, Sr., no more than 400 shares of its \$100 par value common stock for the construction of the aforesaid water system and backup facilities, excluding water mains. 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.

16. Long Canyon's proposed water supply and distribution facilities will provide reasonable service for the certificated area and meet the minimum requirements of General Order No. 103.

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

18. On November 13, 1972 the Board of Supervisors of the County of Kern enacted Ordinance No. F-165, a franchise for a period of twenty years to construct and operate the water system. The franchise is of the standard type between water utilities and counties.

19. Public convenience and necessity require that Long Canyon be granted a certificate of public convenience and necessity to exercise the rights and privileges granted in the franchise conferred by Ordinance No. F-165.

Conclusions of Law

1. Long Canyon should be granted a certificate of public convenience and necessity to construct and operate a public utility water system as set forth in the ensuing order.

2. The certificate granted herein should be conditioned upon Kern Valley Land constructing the water mains for the initial development of the system under a main extension agreement with Long Canyon, and, thereafter, donating and transferring said agreement to Long Canyon.

3. The certificate granted herein should be conditioned upon Long Canyon depositing in an interest bearing account an initial amount of \$10,000 plus an additional \$120 upon the initial sale or transfer of any lot within Tract 3428, as hereinafter provided.

4. Long Canyon should be authorized to charge the rates set forth in Appendix A attached hereto.

5. Long Canyon should be authorized to issue an amount not to exceed 400 shares of its \$100 par value common stock as hereinafter provided.

6. Long Canyon should be granted a certificate of public convenience and necessity to exercise the rights and privileges conferred by the franchise issued pursuant to Ordinance No. T-165 of the Board of Supervisors of the County of Kern.

O R D E R

IT IS ORDERED that:

1. Within one hundred twenty days after the effective date of this order, Long Canyon Water Company shall:

- a. Enter into, in writing, a contract with Kern Valley Land which provides that Kern Valley Land will construct the mains for the initial development of the water system hereinafter authorized under a main extension agreement with Long Canyon and will, upon completion of said mains, donate and transfer them to Long Canyon.
- b. Obtain title to or easements for the land to be used for its operative plant and easements for its transmission and distribution lines. Long Canyon shall also obtain title to an easement or agreement, subject to the approval of the Commission, providing that Well No. 2 will be available to Long Canyon as a standby source of water supply.

Long Canyon shall transmit to the Commission a copy of the aforesaid agreement and documents of title or granting easements within ten days after the execution or receipt thereof.

2. Within one hundred twenty days after the effective date of this order, Long Canyon Water Company shall enter into a loss reimbursement agreement with Kern Valley Land, in a form acceptable to the Commission, which requires the developer to pay to the utility and be deposited in a separate interest-bearing account in a bank or savings and loan association in California an initial amount of \$10,000, plus an additional amount of \$120 upon the initial sale or transfer of any lot within Tract No. 3428. Such funds, together with interest thereon, shall be used only for paying the following costs of the utility, and only to the extent that water service revenues are less than expenditures:

- a. Out-of-pocket (cash) expenses properly chargeable to the below listed accounts in the Uniform System of Accounts for Class D Water Utilities prescribed by Decision No. 69950 dated November 16, 1965:
Ac. 704, Purchased Water
Ac. 726, Power
Ac. 734, Operation and Maintenance - Employee Labor
Ac. 735, Operation and Maintenance - Materials
Ac. 736, Operation and Maintenance - Contract Work
Ac. 507.1, Property Taxes
- b. Replacement or improvement of plant facilities of the water utility provided that such expenditures have first been authorized by a letter from the Secretary of this Commission.
- c. A maximum of ten percent (10%) of the cumulative amount paid into the fund, exclusive of disbursements therefrom shall be utilized to pay the above expenses in any single year.
- d. No amounts in this fund shall be disbursed to pay salaries or expense of owners, officers, or members of owner's family.

Upon the twentieth anniversary of the initial deposit, any amount remaining in the loss reimbursement fund not utilized shall be refunded to the developer or paid to his designee. If, prior to the twentieth anniversary of the initial deposit, the utility is providing water service at rates authorized herein to not less than 400 active services, and is earning a reasonable return on its investment, either the utility or the developer may request a letter from the Secretary of the Commission directing the utility to refund any unexpended balance in the loss reimbursement fund to the developer or his designee. For purposes of determining the number of active services as referred to in this subparagraph, each occupied rental trailer space shall be considered to be an active service.

Long Canyon shall provide the developer with a statement not later than March 31 of 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. Two copies of this statement shall concurrently be filed with the Commission, attention of the Finance and Accounts Division. Two copies of the loss reimbursement agreement shall be filed with the Commission within ten days after the execution thereof.

3. When full compliance has been made with paragraphs 1 and 2 of this order, a certificate of public convenience and necessity is granted to Long Canyon Water Company, a California corporation, authorizing the company to construct and operate a water system in Tract No. 3428 located near the southeast corner of Lake Isabella, Kern County, as shown on the map in the application marked Exhibit D.

4. Applicant is authorized to file, after the effective date of this certificate provided for in paragraph 3 of this order, a schedule of rates set forth in Appendix A to this order, a tariff service area map, 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 the tariff schedules shall become effective on the fourth day after the day of filing.

5. Compliance by applicant with paragraph 4 of this order shall constitute acceptance by it of the right and obligation to furnish public utility water service to Kern County, Tract No. 3428. The authority granted herein shall expire unless the designated tariff sheets are filed within one year after the effective date of the certificate provided for in paragraph 3 of this order.

6. Within ten days after the date service is first rendered to the public under the authority granted herein, applicant shall submit written notice thereof to this Commission.

7. Applicant shall prepare and keep current the system map required by paragraph I.10.a. of General Order No. 103. Within thirty days after the water system is placed in operation under the authority granted herein, applicant shall file with the Commission two copies of the map.

8. Applicant shall install a meter to measure the volume of water pumped from Well No. 1.

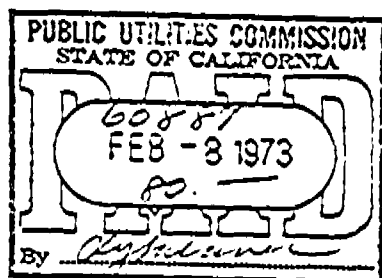
9. For the year 1973, applicant shall apply a depreciation rate of 3.0 percent to the original cost of the depreciable plant. Until reviews indicate otherwise, applicant shall continue to use this rate. Applicant shall review its depreciation rates at intervals of five years or whenever a major change in depreciable plant occurs. Any revised depreciation rate shall be determined by: (1) Subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the result by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of the plant. Results of each review shall be submitted promptly to the Commission.

10. When compliance has been made with paragraphs 1 and 2 of this order, a certificate of public convenience and necessity is granted to Long Canyon Water Company to exercise the rights and privileges of the franchise issued pursuant to Ordinance No. T-165 of the Board of Supervisors of the County of Kern.

11. When compliance has been made with paragraphs 1 and 2 of this order, Long Canyon Water Company may issue to George M. Prince, Sr. no more than 400 shares of its \$100 par value common stock. The authority to issue said stock will become effective when Long Canyon Water Company pays to the Commission the fee of \$80 prescribed by Section 1904.1 of the Public Utilities Code.

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

Dated at San Diego, California, this 6th day of FEBRUARY, 1973.



Vernon L. Sturgeon
President
William J. Rogers Jr.
[Signature]
[Signature]
Commissioners

APPENDIX A
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Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tract No. 3428, located south of State Route 176, approximately two (2) miles west of the community of Welden.

RATES

Quantity Rates:

	Per Meter Per Month
First 700 cu.ft. or less	\$ 6.00
Next 2,000 cu.ft., per 100 cu.ft.50
Next 5,000 cu.ft., per 100 cu.ft.43
Over 7,700 cu.ft., per 100 cu.ft.37

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 6.00
For 3/4-inch meter	7.50
For 1-inch meter	12.00
For 1 1/2-inch meter	20.00
For 2-inch meter	30.00

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

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Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

Tract No. 3428, located south of State Route 178, approximately two (2) miles west of the community of Welden.

RATES

	<u>Per Service Connection Per Year</u>
For a single-family residential unit, including premises not exceeding 12,000 square feet in area.....	\$72.00
(a) For each additional single-family unit on the same premise and served from the same service connection.....	52.00
(b) For each 100 square feet of premises in excess of 12,000 square feet.....	.70

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than 1-inch in diameter.
2. All service not covered by the above classifications shall be furnished only on a metered basis.
3. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service.