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Decision No. 81317

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
COUNTY WATER COMPANY, INC. to lift
restrictions of extending service of
Decision No. 53563 of 7 August 1956
and Decision No. 60754 of 13 September
1960 and to modify its CERTIFICATE OF
PUBLIC CONVENIENCE AND NECESSITY to
operate water systems in the incorpo-
rated cities of Norwalk, Artesia,
Bellflower, Paramount, and Cerritos.

Application No. 53125
(Filed February 3, 1972)

J. A. Erickson, for applicant.
William E. Coburn, for the City of Paramount,
protestant.
William S. Cook, for Park Water Co., interested
party.
Robert C. Durkin, Ichiro Nagao, and S. A. Scott,
for the Commission staff.

O P I N I O N

Public hearing in the above-numbered proceeding was held before Examiner Rogers in Los Angeles on February 5, 1973, and the matter was submitted.

On February 1, 1972 by Decision No. 79667 in Application No. 52764, applicant was authorized to increase its general metered rates^{1/} in its three service areas on the conditions, among others that it:

(a) File an application for authority to operate the Maple Street Mutual Water Company and the Reeves Tract Water Company, Inc. as public utilities.

^{1/} Subsequently applicant received authority for an offset increase. (Decision No. 80500, dated September 19, 1972, in Application No. 53334.)

(b) File an application to extend service to those water users it is now serving without authorization.

Thereafter, applicant filed the herein considered application alleging compliance with the orders of this Commission and requesting an order lifting restrictions on extension of service.

General Information

Each of applicant's three systems has its own sources of supply, and transmission and distribution mains. The three systems are the Bellflower system, primarily located in Bellflower; the County system, primarily located in Norwalk; and the Suburban system, primarily located in Artesia. Applicant served 2,458 customers on February 1, 1972 distributed: 659 in the Bellflower area, 1,536 in the County area, and 263 in the Suburban area.

Applicant has ten active wells which produce a maximum of 2,550 gallons per minute, a storage capacity of 213,500 gallons, and three interconnections with other water entities.

The County System

Applicant's County system is supplied by three active wells capable of producing 1,262 gallons per minute, plus a connection with Park Water Company for 500 gallons per minute. It is prohibited from extending its service area without authorization from the Commission.

Applicant requests authority to serve two additional areas contiguous to the County system. One of these, the Nottingham Dairy, was included within applicant's certificated area by the initial Decision No. 53568 and was later erroneously omitted by applicant in a tariff filing. The second is a small area contiguous to Alburdis and Arkansas Streets and comprising six services. Applicant initiated service to this small area on an emergency basis after a private well failed.

The Bellflower System

Applicant's Bellflower system is wholly within the city of Bellflower, with the exception of one service connection for a hospital on Vans Avenue in the city of Paramount. It is restricted by Decision No. 69747 from extending service to additional customers within Paramount, but no other restriction has been imposed. As of February 1, 1972, the system served 659 customers.

Mutual Acquisitions

Applicant requests authority to serve three systems it has acquired or will acquire. These are the Maple Street Mutual Water Company and the Reeves Tract Water Company, which are contiguous to each other and to applicant's existing Bellflower system, and the Center City Water Users Association.

The Maple Mutual was purchased by J. A. Erickson on September 14, 1967 and has not yet been entered on applicant's books. In this transaction, Erickson acquired 45 customers, 22 acre-feet of pumping allocation, a well, two tanks, mains, and services. Applicant has, since the purchase, recorded revenues and expenses of service in this area on its books. The existing flat rate for this system is \$3 per month.

The Reeves Tract Water Company, Inc. purchase was recorded on applicant's books on March 6, 1969. Since acquisition, this system has been extensively rebuilt but retirement of the old system has not yet been recorded. Revenues and expenses, as with Maple Mutual, have been recorded on applicant's books. In this transaction, applicant acquired 47 customers, 22 acre-feet of pumping allocation, a well, pump, mains, hydrants, and services.

The Center City Water Users Association was acquired as of December 29, 1971 and has not been recorded on applicant's books. In this transaction, applicant acquired 130 customers, 69 acre-feet of pumping allocation, two wells, pumps, services, mains, and one meter. The existing flat rate for the system is \$2.25 per month.

The system previously operated by the Center City Water Users Association lies partially in Bellflower and partially in Paramount. Since applicant purchased the system in December 1971, it has been gradually increasing the pressure in the system so that it may be interconnected with the Bellflower system. The services are on a flat rate basis.

By letter of May 4, 1972, the city of Paramount objected to the sale of the Center City Water Users Association to applicant for the reason that Paramount may acquire existing water utilities in the city with a goal of establishing a municipal water company. The city's plans are not yet firm and the city will not be prepared to purchase the facilities until some time in the future.

At the hearing herein, a representative of Paramount appeared and consented to the extension of service in Paramount by applicant and metering of customers with the understanding that the city intends at some future date to acquire a portion of applicant's system.

The Suburban System

Certification of applicant's Suburban system, located primarily in a portion of the city of Artesia, was established by Decision No. 61483 in 1963. On February 1, 1972, applicant served 263 customers in this system. It had two active wells with a total capacity of 320 gallons per minute, plus a connection with Southern California Water Company for 760 gallons of water per minute.

Applicant has not been restricted from extending service outside of its Suburban system boundaries but was ordered by Decision No. 79667 to file an application requesting authority to serve, among other places, Carver School which lies adjacent to applicant's Suburban system at 193rd Street and Ely Street in the city of Cerritos.

Service

In 1966, the records of the Commission showed that in the previous three years the Commission received 28 complaints from applicant's customers. As of June 30, 1972, the Commission had received five complaints in the past 2-1/2 years, and three of these were high bill complaints.

The Commission records show that applicant has complied with the requirements of Decision No. 79667 relating to transmission and distribution plant which applicant had been ordered to improve in Decision No. 69072 and Decision No. 71264. In accordance with Decision No. 79667 the details of scheduling for improvement of facilities in the Suburban and Bellflower systems have been given to the Commission, and a program of regular pressure surveys has been inaugurated.

Applicant said that all available capital has been invested in its improvement programs, particularly in replacing inadequate mains, but that much work still needs to be done on all of applicant's pumps and wells. Applicant further stated that as funds are generated from the recent rate increases this work will be done.

Recommendations

The staff engineer recommended that applicant be:

1. Authorized to continue service to the Reeves Tract Water Company, Inc., the Maple Street Mutual Water Company, and the Center City Water Users Association.
2. Ordered to interconnect its Bellflower system with the Center City Water Users Association system.
3. Required to enter the purchase price of the three mutuals on its books of account segregated by specified account numbers.

4. Ordered to make an appropriate advice letter filing with suitable tariff maps to show within its tariff boundaries all areas it is now serving.

5. Ordered to record the appropriate charges to plant and other accounts for all plant facilities acquired by purchase of the three mutuals and by the acquisition of other properties which it has acquired.

6. Required to file the flat rate schedules set forth in Appendices A and B.

7. Restricted from serving new customers in Paramount other than those served by Center City Water Users Association unless approval is acquired from the Commission.

8. Permitted to remove the restriction in applicant's County system contingent upon receipt of suitable well test data from recent well tests performed by the Southern California Edison Company to show that the combined capacity of the sources of supply in the County system are adequate to meet peak load conditions in that system.

The Financial Examiner

A staff financial examiner presented information that:

a. Applicant issued a long-term note to acquire the water facilities of Center City Water Users Association without Commission authorization and no authorization for such issuance is sought in the present application.

b. The reproduction cost appraisals of the three mutual water systems that applicant seeks to enter on its books are at variance with the accounting and rate-making practices followed by the Commission.

c. Applicant has had a long and continuing record of violation of Commission orders and restrictions.

d. There is no apparent justification for a continuation of the restriction on expansion by the utility within Paramount.

The financial examiner said that, since 1966, three mutual water companies have been acquired contiguous to applicant's Bellflower system.

He said that the Maple Street Mutual Water Company was purchased in the name of J. A. Erickson, President, on September 14, 1967 for \$2,029; the plant has not been recorded on applicant's books, but subsequent improvements and revenues and expenses of service to customers of the mutual have been so recorded.

He added that the Reeves Tract Water Company, Inc. was acquired by applicant for \$2,003 on March 6, 1969; the plant obtained in this purchase and subsequent revenues and expenses have been recorded on the books of applicant; and the system has been extensively rebuilt since its acquisition, but retirement of the old plant has not been recorded.

The financial examiner said the Center City Water Users Association was acquired by applicant for \$20,000 and was recorded on its books as of December 29, 1971; the applicant made a down payment of \$4,000, has made a second \$4,000 payment, and is paying off the balance over a five-year period; no authorization to incur this long-term indebtedness has been sought; approximately two-thirds of the Center City customers reside in Bellflower and one-third in Paramount; and this acquisition is in violation of Decision No. 69747 wherein applicant was prohibited from extending its water system or furnishing other water service within Paramount without prior authorization from this Commission.

The financial examiner said no record of the original cost of the plant of the three mutuals is available to the staff; and that two of the appraisals submitted by applicant in Application No. 53125 are based on estimated reproduction cost, less depreciation. The following tabulation, he said, compares the purchase prices with the appraisals:

			Applicant's		
			Reproduction	Estimated	
Name of Mutual	Date	Customers	Purchase	Cost	Historical Cost
	Acquired	Acquired	Price	(Depreciated)	(Depreciated)
(1)	(2)	(3)	(4)	(5)	(6)
Maple Mutual	9/14/67	45	\$ 2,029 ^{1/2}	\$ 8,801	
Reeves Tract	3/6/69	47	2,003 ^{1/2}	7,100	
Center City	12/29/69	<u>130</u>	<u>20,000 ^{1/2}</u>		<u>\$15,935</u>
Total		222	\$24,032	\$15,901	\$15,935

^{1/2} Amount recorded on books of County.

The financial examiner said that although authority is not specifically requested, applicant apparently seeks to record on its books of account the appraisal values summarized in Column 5, above. He said the recording of such reproduction cost appraisals has always been rejected by this Commission. He recommended that within ninety days of the effective date of this decision applicant be required to record on its books the purchase prices of the Reeves Tract and Maple Mutual systems and the estimated historical cost, depreciated, of the Center City system.

The financial examiner called attention to the fact that the acquisitions of the mutuels and the issuance of a long-term note to purchase the Center City system without Commission authorization are but the latest in a long history of violations by applicant of Commission orders and restrictions and that, in fact, the Center City system was acquired subsequent to the most recent Commission decision, in which the prohibition on further expansion was continued, indicating that applicant has not abandoned its pattern of violations.

Applicant is a public utility water corporation which consistently disregards the orders and requirements of this Commission. If this were an investigation, a penalty would be appropriate. The applicant and its president, J. A. Erickson, are admonished that further disregard of our orders will result in punitive action.

Findings

1. Applicant has authority to serve the Nottingham Dairy and should revise its tariffs to include such service.
2. Applicant should be authorized to extend service to the six water users it serves near Alburtis and Arkansas Streets in its County system service area. Public convenience and necessity require that applicant provide such service.
3. Applicant should be authorized to acquire and extend service to the Maple Street Mutual Water Company, the Reeves Tract Water Company, Inc., and the Center City Water Users Association. Public convenience and necessity require that applicant provide such service.
4. Applicant should be authorized to extend service to the Carver School at 193rd Street and Ely Street in the city of Cerritos. Public convenience and necessity require that applicant provide such service.

5. Applicant should be authorized to serve, temporarily, the Center City Water Users Association and the Maple Mutual areas on flat rate bases at the flat rates specified in Appendices A and B attached hereto, which rates should be incorporated into applicant's tariffs. These rates should be discontinued and the services metered within six months after the effective date of our order.

6. Applicant issued a long-term note for the acquisition of the Center City Water Users Association system without authority from this Commission. Applicant should be required to file an application for authority to issue a new note and to advise the holder of the existing note that it is void.

7. Applicant should be required to file suitable tariff maps of all areas presently served.

8. Applicant should be ordered to record, in accordance with the Uniform System of Accounts for Class A, B, and C water companies, the appropriate charges to plant and other accounts for all plant facilities acquired by purchase of the three mutuals referred to above and of any other acquired property.

9. Applicant should be restricted from serving additional customers in the city of Paramount until further order of the Commission.

10. When applicant files a report of well production in its County system showing sufficient water to meet peak load requirements and such report is approved by the Secretary of the Commission, the existing restriction against extending the County system should be terminated.

11. The staff financial examiner's method of entering the acquisitions of the Maple Street Mutual Water Company, the Reeves Tract Water Company, Inc., and the Center City Water Users Association are proper. The amounts to be entered on applicant's books are:

<u>Mutual</u>	<u>Date</u>	<u>Amount At Said Date</u>
Maple Mutual	9/14/67	\$ 2,029
Reeves Tract	3/6/69	2,003
Center City	12/29/69	15,935

12. Applicant should be required to enter the figures specified in Finding 11 on its books within ninety days. Depreciation will be determined at permitted depreciation rates from the specified dates of acquisition.

The Commission concludes that the application should be granted to the extent set forth in the following order.

O R D E R

IT IS ORDERED that:

1. County Water Company shall amend its tariffs to include service to the Nottingham Dairy, the Carver School, and to the six water users it serves near Alburdis and Arkansas Streets in its County system service area.
2. County Water Company is granted a certificate of public convenience and necessity to acquire, construct, and operate the Maple Street Mutual Water Company, the Reeves Tract Water Company, Inc., and the Center City Water Users Association.
3. Except for the flat rate customers served by the Maple Street Mutual Water Company and the Center City Water Users Association, service shall be provided at County Water Company's filed tariff rates. Service to the Maple Street Mutual Water Company and Center City Water Users Association flat rate customers shall be at the rates specified in Appendices A and B attached to this decision and by this reference incorporated herein. These flat rates shall be effective for no more than six months after the effective date of this order. On or before the expiration of the six-month period, all service shall be metered and service shall be provided at the appropriate meter rate.

4. Within ninety days after the effective date of this order County Water Company shall file accurate service area maps of all areas served by it.

5. Except as provided by this order, County Water Company shall not serve additional customers in the city of Paramount.

6. Except as provided by this order, County Water Company shall not serve additional customers in its County system service area, nor extend its County system until it reports an adequate water supply and its report is approved by the Secretary of the Commission.

7. In regard to the Center City system, County Water Company shall not extend service outside of the present area served by its Center City Water Users Association system but it may serve new customers within this service area.

8. County Water Company shall make no more payments for the Center City Water Users Association system. Within six months after the effective date of this order, County Water Company shall file an application for authority approving the terms and conditions of the Center City Water Users Association acquisition.

9. County Water Company shall record the acquisitions of the Maple Street Mutual Water Company, the Reeves Tract Water Company, Inc., and the Center City Water Users Association systems as follows:

<u>Mutual</u>	<u>Date</u>	<u>Amount</u> <u>At Said Date</u>
Maple Mutual	9/14/67	\$ 2,029
Reeves Tract	3/6/69	2,003
Center City	12/29/69	15,935

Depreciation on the systems shall be allowed only from the specified dates of the acquisitions. These entries shall be made on applicant's books within ninety days after the effective date of this order.

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10. County Water Company shall keep its books in accordance with this Commission's Uniform System of Accounts.

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

Dated at San Francisco, California, this 1st day of MAY, 1973.

Vernon L. Sturgeon
President
William J. Lyons, Jr.
Robert J. Lyons
Mark R. Lyons
Donald R. Lyons
Commissioners

APPENDIX A

Schedule No. BW-2R.1

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to residential water service presently furnished on a flat rate basis to customers previously served by the "Maple Street Mutual Water Company".

TERRITORY

The area lying within the City of Bellflower between Flower Street on the north and Walnut Street on the south, between Lakewood on the west and Virginia on the east.

RATE

Per Month

For each service connection \$3.00

SPECIAL CONDITIONS

1. The above residential flat rate charge applies to service connections not larger than one inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. A meter may be installed at the option of the utility for the above classification in which event service thereafter will be furnished only on the basis of Schedule No. BW-1, General Metered Service.

APPENDIX B

Schedule No. BW-2R.2

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to residential water service presently furnished on a flat rate basis to customers previously served by the "Center City Water Users Association".

TERRITORY

The area lying within the City of Bellflower beginning on the north side of Laurel, south to Flower Street and between Lakewood Boulevard on the west and Virginia Avenue on the east.

RATE

Per Month

For each service connection \$2.25

SPECIAL CONDITIONS

1. The above residential flat rate charge applies to service connections not larger than one inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. A meter may be installed at the option of the utility for the above classification in which event service thereafter will be furnished only on the basis of Schedule No. BW-1, General Metered Service.