

Decision No. 85742

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SALINAS HILLS WATER COMPANY, a corporation, for authority to issue stock, and to acquire certain assets of Mission Hills Water Co., and for a certificate of public convenience and necessity.

Application No. 54021
(Filed May 8, 1973;
amended June 1, 1973)

MARY LOU YUCKERT,

Complainant,

vs.

MISSION HILLS WATER CO. (a.k.a.
SALINAS HILLS WATER CO.),

Defendant.

Case No. 9885
(Filed March 17, 1975)

George G. Grover, Attorney at Law, for
Salinas Hills Water Company, applicant.
Mrs. Mary Lou Yuckert, for customers;
Walter Wong, for Monterey County Health
Department; Richard Kelton, Attorney at
Law, for Bollenbacher & Kelton, Inc.;
Brian Finegan, for himself; Giulio C.
Cassani, for Toro Park Estates Homeowners
Association; and Terrence G. Kuchel,
Attorney at Law, for Mission Hills
Community Council; interested parties.
Lionel B. Wilson and Walter H. Kessenick,
Attorneys at Law, John J. Gibbons, and
James Barnes, for the Commission staff.

O P I N I O N

Salinas Hills Water Company (Salinas Hills) is the primary applicant in this proceeding. It is incorporated in California for the sole purpose of purchasing and operating the water system

presently held by the Mission Hills Water Company (Mission Hills). It has no assets and will remain dormant until the sale is approved. The Articles of Incorporation on file in the office of the Secretary of State authorize Salinas Hills to issue 500,000 shares of common stock at a par value of \$1.00 per share. This application requests that the Commission authorize the transfer of the entire Mission Hills water system near Salinas for 96,306 shares of the stock of Salinas Hills; that applicant be authorized to assume the debts and obligations of Mission Hills; and that Salinas Hills be granted a certificate of public convenience and necessity to construct, acquire, and operate said Salinas system.

Public hearing was held on November 18, 19, 20, 1974 and on July 1, 1975 in Salinas. It was agreed on the last day of hearing that no action would be taken in this proceeding until the record was closed on Application No. 54023 which involves the transfer of the Lompoc system of Mission Hills.

Evidence was presented by applicant, the Commission staff, the Monterey County Health Department, and Mrs. Yuckert. The latter filed a formal complaint for the purpose of expediting the proceeding and having the water system identified as a public utility. The two matters were consolidated for hearing on July 1, 1975 and the record on the application was incorporated in the complaint proceeding by reference thereto. During the last day of hearing a homeowners' association requested a continuance which was denied, and an attorney for a group of Lompoc homeowners involved in Application No. 54023 appeared to question applicant's witnesses and to request additional hearing dates on Application No. 54023, which were granted.

The application prays that the Commission identify Mission Hills as either a mutual or a utility. The company was originally incorporated in 1911 as the Temple Avenue Mutual Water Company and acquired its present name in 1959. The evidence shows that during

and prior to 1965 the company issued membership certificates to each purchaser of property in Toro Park Estates Unit 1 and Serra Village Units 1 and 2. About 121 of these certificates were issued and one is in evidence as Exhibit 1. Many of the original property owners have moved and almost all of the certificates have been lost during the intervening years. The certificate holders took no part in the management of the water company and no certificates were issued after 1967 when the Division of Corporations ordered that the sale of certificates or shares be stopped until proper permits were obtained. The company has operated as a utility since 1967 and all new residents in the service area have been connected to the system. The applicant, Commission staff, and Mrs. Yuckert identified Mission Hills as a utility. Counsel for a group of Lompoc homeowners maintained it should be a mutual since shares were originally sold and the company never formally identified itself as a utility.

The status question is complicated by the fact that certain expenses of Mission Hills are jointly incurred with four other companies. Ontario Utility Services, Ventura Utility Services, Lompoc Utility Services, and Salinas Utility Services are sewer system corporations and affiliated with Mission Hills through stock ownership and a common director, Anton C. Garnier. All five corporations share office space and personnel at Valinda, California. All expenses are initially charged to Ontario Utility Services and then appropriately allocated. This procedure was adopted as the most economical under the circumstances and will be continued. An additional complication concerns Mission Hills' three divisions. Mission Hills provides water service in Lompoc and Santa Ynez as well as Salinas, and Lompoc residents claim that \$148,000 was transferred to the Salinas unit without authorization to stabilize the northern operation and reduce its losses.

Service Area and System

The system is located on the Salinas-Monterey Highway; three miles south of Salinas and ten miles north of Monterey. The service area is bounded on the north by the Salinas River, on the west by the Monterey-Salinas Highway, on the south by the southern boundary of Toro Park Estates, and on the west by the boundary of Fort Ord Military Reservation. The terrain is a valley, sloping gently toward the Salinas River, and there are hills on the east and west. It is single-family residential, except for a small commercial center and a few condominiums. An elementary school has been constructed with an anticipated enrollment of 650 pupils.

The water supply is obtained from three wells, designated as No. 1, No. 3, and No. 4 (No. 2 was abandoned). Well No. 1 pumps 300 gpm on a standby basis during four months of the year. There are high bacteria counts at this well and the County Health Department has required chlorination. Well No. 3 pumps 610 gpm and is the principal water supply. Well No. 4 can pump 500 gpm and is used as required. It also requires chlorination. There are 5,000- and 10,000-gallon pressure tanks near Wells No. 1 and No. 3, but the system is designed so all three wells pump directly into the distribution mains and thence into a 150,000-gallon storage tank owned by the county of Monterey. The latter provides 75,000-gallons storage for an annual rental of \$500. Float switches in the tank are connected to Wells No. 3 and No. 4. The company has an 8-inch water main connected to the county water system and the storage tank is also a part of the county distribution system. The Mission Hills system is well built and adequately maintained. There are 4,882 feet of 4-inch mains, 17,439 feet of 6-inch mains, 6,223 feet of 8-inch mains, and 11,217 feet of 12-inch mains. There were 690 service connections in November 1974, and the staff engineer estimated 725 as the maximum that can be served during peak periods with the present water supply.

Applicant's Position

It is alleged that obtaining a certificate and transferring the water system will clarify applicant's status and obligations. There will be no increase in rates and no other water utilities or mutuals will be affected. Applicant has a buyer who will purchase the system if it is identified as a utility and transferred to Salinas Hills.

Staff's Position

The staff identified the operation as that of a public utility water company. It was recommended that the Salinas Hills Water Company be authorized to issue to Mission Hills Water Company not to exceed \$80,000 par value capital stock for the net plant balances and materials and supplies of the Salinas water system of Mission Hills Water Company, free and clear of all encumbrances other than advances for construction, contributions in aid of construction, and service fees. Staff believes that unless this is done, there is no suitable basis to support the requested stock issues. It was also recommended that a certificate be granted.

The plant in service at Salinas was valued at \$430,592: \$61,791 was deducted for depreciation reserve and \$294,493 plus \$825 for construction advances and contributions, which left a net of \$73,483. Items of \$40,116 and \$1,814 were added for construction work in progress, raising the total to \$115,415 and certain adjustments reduced this figure to \$108,305, which is the Adjusted Net Utility Plant Investment on December 31, 1973 (Exhibit 3, page 10). The adjusted balance sheet prepared by the staff for the period ending on December 31, 1973 shows a negative net worth of \$26,177 (Table A, Exhibit 3) for the Salinas system, which suggests that an \$80,000 stock transfer may be more equitable.

The record on plant allocations is not available for the period prior to 1964, and staff verification refers only to additions after this date. The Salinas system apparently received \$2,968 worth of meters prior to 1964 without paying for them, and charged its original customers a \$38 connection fee, which was never refunded. The staff estimates that about \$22,800 was collected and has

recommended that this sum be credited to contributions in aid of construction. The \$2,968 worth of meters was credited to earned surplus.

Discussion

Salinas and Lompoc share a bank account. All expenses are paid out of this account and charged to the district (Salinas or Lompoc) which incurs the expense. The Salinas system has operated at a loss since 1965, and Lompoc has been paying the Salinas operating expenses. On December 31, 1973, Salinas owed Lompoc \$127,540. It is listed in the company books as an account payable from Salinas to Lompoc. Customers from the latter district have requested that the Lompoc system become a mutual water company to stop this diversion of funds and provide local management and ownership. Counsel for the Lompoc group agreed that it would be impractical to classify one system as a utility and the other as a mutual. He argued, however, that the Lompoc residents have an interest in the Salinas system and should be considered since they have been paying its bills for many years.

The Salinas District has been operating as a public utility for at least eight years. Customers are connected to the system because they reside in the service area. Those who receive the service have never participated in either the management or ownership of the company. There have been few service complaints in the past three years and no local opposition to utility status, although a homeowner representative advised he would oppose any application to increase the water rates.

The issuance of 121 certificates, prior to 1966, is no reason to deny utility status. The certificate holders did not participate in management or ownership and no certificates have been issued for ten years. The argument of the Lompoc residents is not persuasive; no action was taken during the years the Salinas unit operated as a utility, although transferring funds between two units of the same company is not illegal or unusual. Mission Hills has been operating as a public utility water company and should be

recognized as such. The transfer to Salinas Hills should be authorized. A formal declaration of public utility status will benefit management and customers by identifying what the system can legally do and providing for effective management under Commission supervision.

Findings

1. Mission Hills has been and is operating as a public utility water company near Salinas.

2. Salinas Hills is a new corporation, formed to purchase the Salinas system of Mission Hills and operate it as a public utility.

3. There are no competing utilities since Mission Hills provides the only water available within its proposed service area.

4. The water system is in good repair and is adequately maintained.

5. The water system satisfies the design and construction requirements of the Commission's General Order No. 103.

6. The available water supply and storage is barely adequate to satisfy the maximum daily flow requirement of the present customers.

7. The water supply is not adequate to satisfy the peak flow requirement for the ultimate development of 900 customers.

8. New customers should not be served, except within the 4.1-acre commercial shopping center located on the northeasterly boundary of Toro Park Estates, Unit 1, and within the following listed recorded subdivisions: Toro Park Estates, Units 1, 2, 3, 4, 5, and 6; Toro Creek; Serra Village; and Creekside Units 1, 2, 3, and 4.

9. The net worth of the system to be transferred is approximately \$80,000.

10. Salinas Hills should provide the metering of Well No. 1 as recommended by the Commission staff.

11. Salinas Hills should adopt the current rates charged by Mission Hills, which are justified and reasonable.

12. The book entry which indicates the debt Salinas owes Lompoc is not a basis for denial of this application. The debt resulted from a series of intercompany transfers which extend over many years and are not relevant to the issues in this proceeding, since the unit was functioning as a utility and must be identified as such.

13. The proposed security issue is for proper purposes and the money, property, or labor to be procured or paid for by the issue of the security authorized by this decision is reasonably required for the purposes specified, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

14. We find with reasonable certainty that the project involved in this proceeding will not have a significant effect on the environment.

Conclusions

1. The Mission Hills water system has been and is operating as a public utility.

2. Salinas Hills should be granted a certificate to operate as a public utility water company and should be authorized to purchase the Mission Hills water system.

3. The consideration for the sale should be \$80,000 in Salinas Hills' common stock.

4. Service to new customers should be limited as provided in Finding 8.

In issuing this decision we place the issuer of the authorized stock and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares, nor the dividends paid, as measuring the return it should be allowed to earn on its investment in plant, and that this authorization is not

to be construed as a finding of the value of the company's stock or property nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. A certificate of public convenience and necessity is granted to the Salinas Hills Water Company, authorizing it to purchase the public utility water system near Salinas from the Mission Hills Water Company.
2. On or before July 31, 1976, Mission Hills Water Company may sell and transfer the water system referred to in the application to Salinas Hills Water Company.
3. As a condition of this grant of authority, purchaser shall assume the public utility obligations of seller within the area served by the water system being transferred. Purchaser shall send notice of the assumption of liability for refunds to all customers affected.
4. Within ten days after completion of the transfer purchaser shall notify the Commission, in writing, of the date of completion and of the assumption of the obligations set forth in paragraph 2 of this order.
5. Purchaser shall adopt the rates of seller and will file tariffs in accordance with the procedures prescribed by General Order No. 96-A. No increase in rates shall be made unless authorized by this Commission.
6. On or before the date of actual transfer, seller shall deliver to purchaser, and the latter shall receive and preserve all records, memoranda, and papers pertaining to the construction and operation of the water system authorized to be transferred.
7. Upon compliance with all of the terms and conditions of this order, seller shall be relieved of its public utility obligations in connection with the water system transferred.

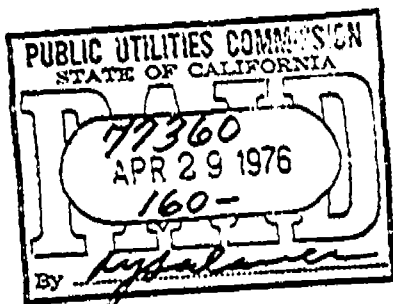
8. On or after the effective date of this order and on or before December 31, 1976, for the purposes specified in this proceeding, purchaser may issue not exceeding 80,000 shares of its common stock having a par value of \$1.00 per share.

9. The issuer of the securities authorized by this order shall file with the Commission a report, or reports, as required by General Order No. 24-Series.

10. Salinas Hills Water Company shall not extend nor furnish service outside of the area delineated in Finding 8, unless authority is first obtained from this Commission.

The authority granted by this order to issue stock will become effective when the issuer has paid the fee prescribed by Section 1904.1 of the Public Utilities Code, which fee is \$160. In other respects the effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 29th day of APRIL, 1976.



William J. Spitzer, Jr. President
Thomas R. ...
Robert Bateman Commissioners