

Decision No. 86112

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of GARDEN WATER CORPORATION, a corporation, and CALIFORNIA WATER SERVICE COMPANY, a corporation, for an order authorizing (1) the sale and transfer to California Water Service Company of the water systems and certificates of public convenience and necessity of the Garden Water Corporation, (2) the discontinuance of service by Garden Water Corporation in the territory now served by it, and (3) the commencement of service in said territory by California Water Service Company at the rates then effective in the Bakersfield District of California Water Service Company.

Application No. 56363  
(Filed March 29, 1976)

Robert E. Schweser, for Garden Water Corporation, applicant  
Ed F. Catey and Ralph D. Lindberg, for California Water Service Company, applicant.  
Tom McCarthy and Fred Kloepper, interested parties.  
Robert C. Durkin, for the Commission staff.

O P I N I O N

California Water Service Company (buyer), a California corporation, requests authority to buy and Garden Water Corporation (seller), a California corporation, requests authority to sell its two water systems, one of which is located northwest of Bakersfield and the other located in and southwest of Bakersfield. Buyer also requests that upon transfer of the two systems that buyer be authorized to charge the customers of the two systems the same water rates as buyer will be charging its present customers located in its Bakersfield service area. A hearing was held on the application at Bakersfield on May 25, 1976

before Examiner Pilling. At the hearing buyer introduced into evidence two affidavits entitled "Affidavit of Giving Notice by Mailing." The first affidavit shows that buyer notified each of seller's customers by mail of the pending application to transfer and of the request by buyer that upon transfer of the systems that buyer be authorized to charge seller's customers buyer's Bakersfield rates in effect upon transfer. A schedule of buyer's Bakersfield rates was attached to the notice. The second affidavit, subscribed to on May 7, 1976, shows that buyer notified each of seller's customers of the time and place of the hearing on Application No. 56363 and pointed out that buyer's Bakersfield rate schedule previously furnished to the customers was subject to possible minor modification at such time as a final order is issued in buyer's pending Bakersfield District rate proceeding.

The evidence shows that buyer is engaged as a public utility in the business of supplying and distributing water for domestic and industrial purposes in many localities in the State of California, including the city of Bakersfield and unincorporated portions of the county of Kern. For the year 1975 it had operating revenues of \$38,500,000 from all its water systems and at the end of that year it showed its net utility plant to be valued at \$139,600,000, of which \$14,500,000 is dedicated to serving approximately 38,321 customers in its Bakersfield service area. The agreed sale price for the two systems is \$1,284,979 cash upon closing, said sum being the depreciated book cost of the two systems as of December 31, 1974 of \$1,309,446, less contributions in aid of construction of \$24,467. The sale price will be adjusted upon closing to reflect additions and retirements to the systems, increases or decreases in materials and supplies, depreciation, increases in contributions in aid of construction, and the sum of all amounts remaining subject to refund since December 31, 1974. Upon closing buyer is to receive all of the properties, franchises, operative rights, and assets (except accounts receivable, unbilled revenues, cash and refundable deposits made by customers) comprising

seller's water systems. Buyer intends to integrate the two systems acquired from seller into buyer's Bakersfield system for accounting and operational purposes and furnish water service to each customer within the area presently served by seller at the then effective rates and in accordance with the then effective rules of buyer in its Bakersfield service area.

Operative rights for seller's water system were granted by Commission Decisions Nos. 53810 dated September 25, 1956; 63016 dated January 9, 1962; and 66390 dated December 3, 1963. Seller's Plant No. 1 is located southwest of Bakersfield and provides service at both flat and metered rates to approximately 1,800 customers. Water is obtained from six wells. The combined distribution systems of seller's Plants Nos. 1 and 2 consists of approximately 197,000 feet of 1-1/2 through 12-inch asbestos cement and steel mains. Sixty-eight fire hydrants are attached to the system. Seller's Plant No. 1 service area is contiguous to the southerly boundary of buyer's Bakersfield District.

Seller's Plant No. 2 is located northwest of Bakersfield and provides service at both flat and metered rates to approximately 800 customers. Water is obtained from six wells. Sixty-eight fire hydrants are attached to the system. Seller's Plant No. 2 service area is within approximately a mile of the northwesterly boundary of buyer's Bakersfield District.

Seller is anxious to withdraw from the public utility water business, and believes it would be to the advantage of seller's customers for seller's water systems to be owned and operated by buyer.

Seller's annual report to the Commission for the year ended December 31, 1974 reflects the following amounts:

Utility plant in service .....	\$1,484,751
Construction work in progress .....	2,763
Materials and supplies .....	3,290
Plant held for future use .....	3,000
Plant acquisition adjustment .....	(2,242)
Total utility plant .....	<u>1,491,562</u>
Depreciation reserve .....	182,116
Net utility plant .....	<u>1,309,446</u>
Advance for construction .....	325,958
Contributions in aid of construction	24,467

(Red Figure)

The above amounts are believed by the seller and buyer to reflect the historical original cost of the properties.

Buyer states that it is willing to purchase seller's water systems because their accounting and operational functions may be integrated into buyer's Bakersfield District. Buyer contends that seller's customers will be benefited by the purchase through the availability of buyer's operating, maintenance, engineering, quality control, accounting, and billing departments.

The following table sets forth seller's existing rates and buyer's rates as approved by the Commission in Decision No. 85874 dated May 18, 1976. That decision allowed buyer a one percent increase over its rates in effect March 7, 1976, except for the service charges under metered rates, which remained the same.

METERED SERVICE  
(Per Meter Per Month)

## Quantity Rates:

	<u>Buyer</u>	<u>Seller</u>
Per 100 cu.ft. ....	\$ 0.199	
First 1,000 cu.ft. or less .....		\$ 6.00
Next 3,000 cu.ft., per 100 cu.ft. ....		.359
Next 6,000 cu.ft., per 100 cu.ft. ....		.299
Over 10,000 cu.ft., per 100 cu.ft. ....		.191

## Service Charge:

For 5/8 x 3/4-inch meter .....	\$ 3.24	\$ 6.00
For 3/4-inch meter .....	3.56	8.40
For 1-inch meter .....	4.86	12.00
For 1-1/2-inch meter .....	6.48	21.75
For 2-inch meter .....	8.75	34.00
For 3-inch meter .....	16.20	54.00
For 4-inch meter .....	22.03	84.00
For 6-inch meter .....	36.61	-
For 8-inch meter .....	54.42	-
For 10-inch meter .....	67.38	-

FLAT RATE SERVICE  
(Per Month)

For a single-family residential unit, including premises having the following area:

6,000 sq.ft. or less .....	\$ 9.47	
10,000 sq.ft. or less .....		\$ 9.00
6,001 to 10,000 sq.ft. ....	10.45	
10,001 to 16,000 sq.ft. ....	13.50	11.75
16,001 to 25,000 sq.ft. ....	17.52	14.80

For each additional single-family residential unit on the same premises served from the same service connection

6.09                      4.80

Exhibit 2 introduced into evidence and reproduced in Appendix A shows a summary of earnings for buyer and seller for the test year 1975. As shown in Appendix A the application of buyer's rates, authorized by Decision No. 85847, would result in a decrease in metered service gross operating revenue of approximately \$18,100 and an increase in flat rate gross operating revenue of approximately \$41,700, or a net increase in gross operating revenue of approximately \$23,600. Buyer estimates that its expenses in operating the two systems in conjunction with buyer's present system will result in a savings of operating expenses for the two systems compared to those of the seller, of approximately \$14,600 and give the buyer net operating revenues of approximately \$79,800, or a rate of return of 9.07 which is .63 percent less than found reasonable for buyer's Bakersfield District service by Decision No. 85874. Combining the two systems with buyer's Bakersfield system will result in a decrease in buyer's overall rate of return for the Bakersfield District, including the two systems to be acquired, to 9.66 percent from 9.70 percent found reasonable in Decision No. 85874.

Seller is currently providing and paying for the maintenance of the fire hydrants in its two service areas. The Kern County Fire Marshal and a representative from the Kern County Public Works Department expressed concern at the hearing that if buyer was allowed to take over the seller's systems buyer might cease maintaining the fire hydrants. The president of buyer stated that buyer would continue the policy of seller in respect to the fire hydrants but intended to approach the Kern County Fire Department on the possibility of entering into a fire hydrant agreement with it. Unless buyer can get a rate of return on and compensation for its expenses in maintaining the fire hydrants, then buyer would have to look to the customers of the systems.

One of seller's customers complained that during peak periods of usage his water pressure was too low and the representative of buyer stated that upon the integration of the system with

buyer's Bakersfield system the problem would be corrected. No other deficiencies of seller's systems was brought out. Another of seller's customers stated that he wanted metered service in lieu of the flat rate service he was now getting and buyer stated that it was buyer's policy to put in metered service wherever requested.

After consideration the Commission finds and concludes that the proposed transfer is not adverse to the public interest and that the transfer as proposed in the application should be authorized. The Commission further finds and concludes that upon transfer of the involved two systems from seller to buyer the rates which buyer thereafter proposes to charge customers of those systems and which are on a level with buyer's rates authorized to be charged buyer's present customers in its Bakersfield service area are justified and reasonable and will afford buyer a rate of return not in excess of that which the Commission approved in Decision No. 85847.

California Water Service Company is placed on notice that operative rights, as such, do not constitute a class of property which may be capitalized or used as an element of value in rate fixing for any amount of money in excess of that originally paid to the State as the consideration for the grant of such rights. Aside from their purely permissive aspect, such rights extend to the holder a full or partial monopoly of a class of business. This monopoly feature may be modified or canceled at any time by the State, which is not in any respect limited as to the number of rights which may be given.

O R D E R

IT IS ORDERED that:

1. On or before December 31, 1976, Garden Water Corporation may sell and transfer the water system and other assets referred to in the application to California Water Service Company.

2. 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 and shall assume liability for refunds of all existing customer deposits and advances pertaining to the water system being transferred. Purchaser shall send notice of the assumption of liability for refunds to all customers affected.

3. 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.

4. Concurrent with the giving of notice as set out in Ordering Paragraph 3 purchaser shall file with the Commission a revised service area map of purchaser's Bakersfield service area to include the area comprising the two systems authorized to be transferred herein to become effective no less than five days after filing of the revised map, and upon the effective date of the revised map and thereafter unless otherwise authorized by the Commission the two systems shall be considered integrated into purchaser's Bakersfield service for accounting, operational, and rate application purposes.

5. 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.

6. On or before the end of the third month after the date of actual transfer purchaser shall cause to be filed with the Commission, in such form as it may prescribe, an annual report covering the operations of seller for the period commencing with the first day of the current year to and including the effective date of the transfer.

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.

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

Dated at San Francisco, California, this 13<sup>th</sup> day of JULY, 1976.

*William Synovius* President  
*Verdine L. Sturgeon*  
*Mark*  
*Robert Bateman* Commissioners

## APPENDIX A

ESTIMATED SUMMARY OF EARNINGS  
(Test Year 1975)

Item	BAKERSFIELD DISTRICT		GARDEN SERVICE AREA		
	Present (c)	Including: Garden	Under G.W.C : Ownership(a)	Change	Under G.W.S. : Ownership(b)
(Dollars in Thousands)					
<u>Operating Revenues</u>					
Metered .....	\$ 1,757.9	\$ 1,789.1	\$ 49.3	\$(18.1)	\$ 31.2
Flat rate .....	3,947.3	4,257.9	268.9	41.7	310.6
Other .....	65.6	66.2	0.6	0.0	0.6
Total revenues	5,770.8	6,113.2	318.8	23.6	342.4
<u>Operating Expenses</u>					
Purchased power ....	975.0	1,020.0	45.0	0.0	45.0
Pump tax .....	747.1	783.8	36.7	0.0	36.7
All other expenses	1,121.0	1,192.4	115.9	(44.5)	71.4
Depreciation expense	455.5	494.3	38.8	0.0	38.8
Ad valorem taxes ....	470.3	503.4	33.1	0.0	33.1
Business license ....	72.8	79.6	6.4	0.4	6.8
Income taxes .....	522.5	553.3	1.3	29.5	30.8
Total expenses	4,364.2	4,626.8	277.2	(14.6)	262.6
Net Operating Revenues	1,406.6	1,486.4	41.6	38.2	79.8
Rate Base .....	14,501.3	15,381.3	880.0	0.0	880.0
Rate of Return .....	9.70%	9.66%	4.73%	4.34%	9.07%
Number of Services ..	38,321(d)	40,763	2,442	0	2,442

(Red Figure)

- (a) Garden Water Corporation Advice Letter No. 29 authorized by Resolution No. W-1862 dated January 20, 1976. Summary of Earnings adopted by Commission.
- (b) Revenues based upon rates authorized by Decision No. 85847 dated May 18, 1976 in Application No. 55053. "All other expense" at \$29.25 per customer based upon that decision.
- (c) Based upon Decision No. 85847 dated May 18, 1976 in Application No. 55053.
- (d) CPUC Staff Exhibit 17A, Application No. 55053.