

Decision No. 87621 JUL 19 1977

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application )  
of COUNTY WATER CO. OF RIVERSIDE, )  
INC. for a certificate of public )  
convenience and necessity to )  
construct a public utility water )  
system and provide a public sewer )  
service in the unincorporated area )  
of the county of Riverside near )  
Sun City and Lake Elsinore and )  
to establish rates for service. )

Application No. 56623  
(Filed July 16, 1976)

John A. Erickson, for applicant.  
Wayne Odekirk, for The Farm, Inc.;  
and Albert J. Lambert, for  
Riverside County Assessor;  
interested parties.  
R. C. Durkin and I. B. Nagao, for  
the Commission staff.

O P I N I O N

County Water Company of Riverside, Inc. (County-Riverside), incorporated in April 1975 as a separate entity to provide water and sewer service in an unincorporated area in Riverside County near Sun City and Lake Elsinore, seeks an order of the Commission granting it a certificate that present and future public convenience will require the construction and operation of a public utility water system and a public utility sewer system.

After notice, public hearing was held before Examiner Johnson on January 24, 1977 at Riverside and the matter was submitted upon receipt of late-filed Exhibit 6 due February 15, 1977.

Testimony was presented on behalf of County-Riverside by its president, John A. Erickson, by the chief engineer of the city of Riverside Water Division, and by Wayne Odekirk, corporate officer of The Farm, Inc. (The Farm), developer-owner of the property to be served, and on behalf of the Commission staff by one of its financial examiners and by one of its utility engineers.

Mr. Erickson controls County Water Company (County-Norwalk), a public utility water company serving approximately 2,700 customers in the Norwalk area. According to the record, it is proposed that County-Riverside's record keeping and customer billing be performed in County-Norwalk's Norwalk office. The record further shows that a part-time employee will be on County-Riverside's property during the early phases of the operation of the proposed system and that The Farm has agreed to make available on-site space for day-to-day supervision of County-Riverside's operations and for the handling of customer problems.

The Farm's total development will encompass 1,510 acres to be divided into 1,802 lots. The current application is limited to the certification for water and sewer service to Tract 6378 which consists of 88 lots. Final county approvals have allegedly been obtained for these 88 lots. In accordance with the provisions of the California Environmental Quality Act (CEQA) and its Guidelines, Riverside County is the lead agency for this mobile home subdivision and has approved a Final Environmental Impact Report.

According to the application water is to be purchased from the Elsinore Valley Municipal Water District (EVMWD). Delivery will be through a 10-inch main extending from EVMWD's 21-inch main along Bundy Canyon Road to Tract 6378. Two main line pumping stations of 100 and 125 horsepower capacity will boost the water to a 240,000-gallon storage reservoir at an elevation of 1,890 feet. It is estimated that water pressure will vary between 40 and 100 psi within the tract. The Riverside Health Department has required that the used 240,000-gallon storage reservoir either be replaced or certified by an "eminent structural engineering authority" prior to use. The staff engineer testified that with the exception of this reservoir certification and the certificates requested in this proceeding, County-Riverside has obtained all necessary approvals for the contemplated water and sewer systems.

The record shows that the proposed sewer system for Tract 6378 consists of a 4-inch vitrified clay pipe lateral for each lot, 8- and 10-inch collector mains, a 30,000-gallon-per-day (gpd) modular treatment plant, and a one-half acre percolation basin. The staff engineer estimates the average customer will have about 250 gpd of effluent. Therefore, according to his testimony, the 30,000 gpd treatment plant is adequately sized for 120 customers and additional modules will be necessary for future tracts.

At issue in this proceeding are: (a) whether applicant should be granted a certificate; (b) the propriety of the formation of a separate utility to serve The Farm; (c) the appropriate estimates of revenues and expenses to be adopted; (d) the necessity of a separate source of supply; (e) the proper accounting treatment for the capital costs of the facilities to serve new

customers; (f) the certification of the 240,000-gallon storage tank; (g) the necessity of loss reimbursement agreements; (h) the requirements for contiguous extensions; and (i) the level and form of rates.

The staff financial examiner testified that the staff's objective is to avoid formation of more small, uneconomic water and sewer utilities. Consequently, he recommended that the requested certificate be denied. The staff engineer concurred.

Because we feel this project should not be certificated, we need only discuss the results of operation portion of the evidence.

#### Results of Operation

Both County-Riverside and the Commission staff prepared estimated summaries of earnings for the water and sewer systems. The tabulation on page 5 of this decision sets forth these summaries for the fifth year of operation.

For the fifth year of operation, County-Riverside anticipates 75 percent occupancy or 1,350 customers, as contrasted to the staff engineer's estimate of 500 customers. The Farm's vice president testified that mobile home lots were a fast-selling item and that he fully expected to sell out in under four years; and the five year period used for the estimates was, in his opinion, very conservative. This testimony was contradicted, however, by County-Riverside's engineering witness who testified that he believed the staff's estimate to be more realistic. It is not necessary to detail all the differences between applicant and staff. The basic differences are in the estimate of the number of customers at the fifth year and in treating the facilities as contributions rather than advances. We believe that the staff's conservative estimate of 500 customers is more accurate than applicant's. We will adopt the staff's showing.

Summary of Earnings  
(Estimated Fifth Year)

Item	County	Staff Estimates	
		With County: Cust. Est.	With Staff: Cust. Est.:
Number of Customers	1,350	1,350	500
<u>WATER</u>			
Operating Revenue	\$ 180,030	\$164,430	\$ 60,900
<u>Operating Expense</u>			
Source of Supply	5,000	-	-)
Purchased Power	9,000	-	-)
Purchased Water	47,600	56,790	21,000
Other	51,200	51,200	33,300
Subtotal	112,800	107,990	54,300
Depreciation	32,248	48,000	30,000
Taxes	16,000	42,100	23,350
Total	161,048	198,090	107,650
Net Revenue	18,982	(33,660)	(46,750)
Rate Base	2,704,200	(9,000)	(4,000)
Rate of Return	0.7%	Loss	Loss
<u>SEWER</u>			
Operating Revenue	\$ 87,480	\$ 87,480	\$ 32,400
<u>Operating Expense</u>			
Operation & Maintenance	36,200	65,000	30,000
Depreciation	26,000	-	-
Taxes	14,000	25,100	14,000
Total	76,200	90,100	44,000
Net Revenue	11,280	(2,620)	(11,600)
Rate Base	1,876,000	12,000	4,000
Rate of Return	0.6%	Loss	Loss

(Red Figure)

<sup>1/</sup> The bases for the adopted results are set forth in the following paragraphs.

Our objective in this application is to avoid the formation of a small, uneconomic water and sewer utility. In this particular instance we have the additional duty to prevent this new development from ever becoming a burden on the existing customers of County Water Company. It has been our experience with small water companies similar to applicant's that once the development is completed and the developer has no further interest in maintaining water and sewer rates and services at a reasonable level, rates go up, maintenance declines, and service deteriorates. As a consequence the Commission is beset with complaints; our staff investigation shows that the problem is lack of money; and to provide that money, rates would have to be raised to a disproportionately high level commensurate with service rendered and service which is rendered in nearby water companies and districts. There is less reason to certificate this particular project than others of comparable small size because in this instance the entire development is surrounded by the municipal water district which has agreed to supply water to the project. We would expect that in the usual course of events if we were to certificate this project, eventually it would be absorbed into the district. It appears to us that sound engineering and sound economics require that absorption to take place now rather than later. And if it is not to be absorbed into the district, that is all the more reason for denying this certificate. The Commission hereby gives notice that we do not intend to certificate uneconomic water and sewer systems.

Findings

1. A reasonable estimate of customers at the fifth year of operations of applicant is 500 metered customers.
2. The staff's estimate of revenues and expenses as set forth in the results of operation study on page 5 of this decision is adopted as reasonable.

3. Applicant is expected to lose approximately \$58,350 annually by the fifth year of operation.

4. Applicant's proposal is uneconomic and it cannot be foreseen with any reasonable degree of probability that its operation will ever be economic.

5. Public convenience and necessity do not require the certification of applicant's system.

The Commission concludes that the application should be denied.

O R D E R

IT IS ORDERED that the application is denied.

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

Dated at San Francisco, California, this 19<sup>th</sup> day of JULY, 1977.

I abstain  
William Squous Jr

I dissent  
Vernon L. Sturgeon

Robert Bateman  
President

Richard D. Travell  
Clare J. DeRish  
Commissioners