

**ORIGINAL**

Decision No. 59192

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of STANLEY Z. BOLTON and LAURETTA A. BOLTON, his wife, doing business as TAHOE PARK WATER SYSTEM, in TAHOE PARK and MIRAMAR HEIGHTS TRACTS, PLACER COUNTY, CALIFORNIA to sell and transfer their water system and properties to DONALD L. KAASTRUP and MARGARET H. KAASTRUP, his wife. The latter to issue a note of \$40,000, to be secured by a first deed of trust.

Application No. 41539

O P I N I O N

This is an application for an order of the Commission (1) authorizing Stanley Z. Bolton and Lauretta A. Bolton, his wife, doing business as Tahoe Park Water System, to sell and transfer their water system to Donald L. Kaastrup and Margaret H. Kaastrup, his wife, and (2) authorizing Donald L. Kaastrup and Margaret H. Kaastrup, his wife, to execute a deed of trust and to issue a \$40,000 note to finance, in part, the purchase price of said water system and certain nonoperative land.

The water system known as Tahoe Park Water System is located about two miles south of Tahoe City, Placer County, and serves approximately 200 customers. In Decision No. 56484, dated April 8, 1958, the Commission reviewed the operations and authorized increases in rates for seasonal service from May to September which were designed to produce annual net operating revenues of \$1,200 representing a return of 6.6% on a depreciated rate base of \$18,210 for the estimated year 1958. Thereafter,

by advice letter filed August 10, 1959, the owners of the utility instituted rates for winter service from October to April.

In the application now before us it is set forth that the agreed purchase price for the water system, and for 4.35 acres of land which are not included in the system, is \$50,000; that the purchasers have agreed to pay \$10,000 of this amount in cash; and that they propose to issue a note for the remainder of the purchase price in the amount of \$40,000 to be payable in annual installments of \$2,700 or more each, with interest at the rate of six per cent per annum, and to be secured by a deed of trust covering the water system facilities, as well as the nonoperative land. In presenting this application to the Commission, applicants report that the net book value of the water system as of December 31, 1958 was \$18,228 and that the value of the 4.35 acres of land is \$13,000, the two items making a total of \$31,228, as compared with the agreed purchase price of \$50,000 and the proposed note and deed of trust of \$40,000.

The agreed purchase price is not segregated between the water system properties and the nonoperative real properties. Inasmuch as the Commission only last year made its finding of value of the utility properties for rate-fixing purposes and inasmuch as the indicated utility revenues under the prescribed rates apparently will not service the note, it appears to us that the agreed purchase price is predicated primarily on potential real estate values and that such real estate must and should constitute the chief support of the note as to

both principal and interest payments. There is nothing in the application, however, to show the extent to which the real estate can, or will be, developed and made revenue producing.

In passing on an application to issue a note, the Commission is required to make a finding that in its opinion the money, property or labor to be procured or paid for by the issue of such note is reasonably required and that the purpose of the issue is not, in whole or in part, reasonably chargeable to operating expenses or to income. It occurs to us that in a situation such as the one now before us, where we are called upon to authorize the issue of a note and deed of trust substantially in excess of reported values, we cannot make the required finding with respect to the note, nor a finding that the transaction will not be adverse to the public interest, as it might well be that the requirements of the borrowers to meet principal and interest payments would affect their ability to obtain funds, either from income or from external sources, to improve and maintain the public utility service and facilities and to provide the cost of additions and extensions.

In view of this conclusion that we cannot make the required findings, we are compelled to deny the application.

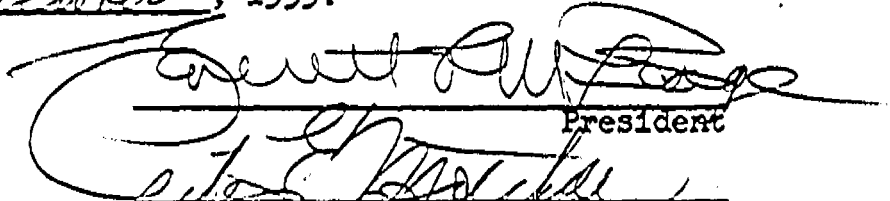
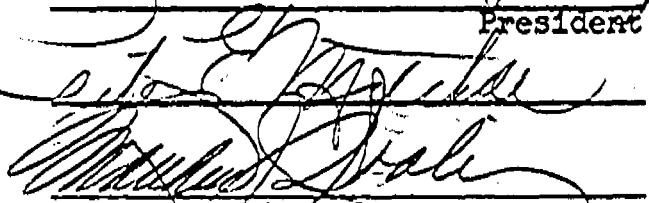
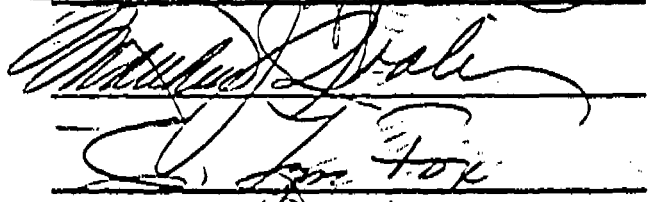
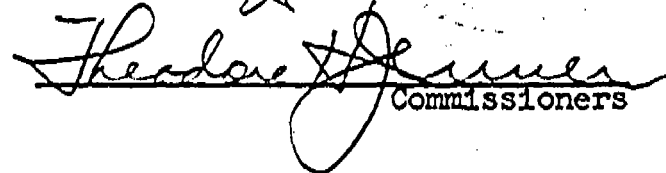
O R D E R

The Commission having considered the above-entitled matter and being of the opinion that the transfer, under the terms set forth therein, will be adverse to the public interest,

IT IS HEREBY ORDERED that Application No. 41539 be, and it hereby is, denied without prejudice.

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

Dated at San Francisco, California,  
this 17<sup>th</sup> day of October, 1959.

  
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President  
  
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Commissioners