

ORIGINALDecision No. 70242

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CREST WATER COMPANY, a California corporation, and CALIFORNIA WATER SERVICE COMPANY, a California corporation, for an order authorizing (1) the sale and transfer to California Water Service Company of the water system and certificate of public convenience and necessity of Crest Water Company, (2) the discontinuance of water service by Crest Water Company in the area now served by Crest Water Company, (3) the commencement of water service in said area by California Water Service Company and (4) the furnishing of water service by California Water Service Company in certain territory contiguous to the existing service area of Crest Water Company.

Application No. 48069
Filed November 19, 1965

O P I N I O N

Crest Water Company (seller), a corporation, and California Water Service Company (buyer), a corporation, seek authority for the transfer of a water system. A resolution of the Council of the City of Bakersfield, hereby received as Exhibit No. I, states that the transfer meets with the complete approval of the City of Bakersfield, alleges that seller's customers desire service by buyer, and requests that the Commission approve the transfer promptly.

Seller and Buyer

Seller is an operating public utility corporation engaged in the business of supplying and distributing water in the northeastern part of the City of Bakersfield, Kern County, and certain unincorporated territory contiguous thereto.

Buyer is an operating public utility corporation engaged in the business of supplying and distributing water in many localities in California, including most of the City of Bakersfield.

Service Area and Water System

By Decision No. 53233, dated June 12, 1956, in Application No. 37744, seller was granted a certificate to construct a water system to serve the 320-acre initial portion of its present service area. From time to time, seller extended service to additional territory. Seller's present service area, as shown on the map attached to the pleading herein as Exhibit A to Exhibit 3, includes approximately 900 acres. The service area boundary shown on that map is essentially the same as is shown on seller's filed tariff service area map.

Upon acquisition of seller's system, and the resultant formation of a new Crest Tariff Area¹ within buyer's enlarged Bakersfield District, buyer also intends to add about 550 acres of land to the new tariff area. This territory lies between seller's present service area and the Kern River. This addition would represent a fairly large percentage increase in seller's service area but it is a small addition when compared with buyer's adjacent Bakersfield District, which buyer's filed tariff service area map shows to be about 25 square miles in area.

Seller's 1964 annual report to the Commission shows, as of the end of 1964, that water was obtained from four wells, from which it was pumped into four storage tanks and three pressure tanks for distribution through 23 miles of mains which supplied 1,534 flat rate services, 44 metered services, one private fire connection and 120 public fire hydrants. Buyer proposes to supply the Crest Tariff Area with water from the Bakersfield Tariff Area by means of interconnections. In Exhibit No. I, the City of Bakersfield indicates

¹ In the absence of a request by buyer for any specific name for the new tariff area, it is herein designated "Crest Tariff Area."

that buyer will then supply the Crest Tariff Area customers with a higher quality of water than is now provided from seller's wells. We also take official notice of the pending investigation, Case No. 7937, in which the poor quality of water supplied by seller is a major issue. Buyer does not indicate in the pleading what length and type of interconnecting mains will be required but it is reasonable to assume, from buyer's estimate, that it will take \$440,000 and about one year to complete the interconnection of the two adjacent systems, and that something more extensive than short tie-mains will be installed.

Tariffs

Buyer proposes to apply its own present rules and seller's present rates to the Crest Tariff Area. There are no significant differences between seller's and buyer's rules and fire protection rates but seller's other rates are considerably higher than those now in effect for buyer's Bakersfield Tariff Area. Comparative residential flat rate charges for various sizes of lots are shown in the following Table I:

TABLE I

Comparison of Flat Rate Charges

<u>Lot Size</u>	<u>Bakersfield</u>	<u>Crest</u>
5,000 sq.ft.	\$4.70	\$ 6.00
10,000 sq.ft.	5.20	11.25
15,000 sq.ft.	6.70	15.00
20,000 sq.ft.	8.70	17.50

Buyer points out in the pleading that if the \$440,000 estimated cost of interconnection were added to the rate base developed by the staff, in Case No. 7937, seller's operations would result in a rate of return of less than 6 percent. Although we find it reasonable for buyer initially to adopt seller's rates, a

determination should be made in future rate proceedings as to whether zone rates are still warranted and, if so, whether the location of the zone boundaries are then still appropriate.

Franchises and Certificates

Decision No. 53233 granted seller certificates to construct the initial system and to exercise a franchise granted by the County of Kern under Ordinance No. F-40, adopted March 27, 1956. The pleading herein states that seller was granted another franchise by the County of Kern under Ordinance No. F-39, adopted December 6, 1955. Seller has never been granted a certificate to exercise that franchise. Buyer proposes to acquire both franchises, together with seller's certificates of public convenience and necessity.

Agreement of Sale

On November 18, 1965, seller and buyer entered into an agreement, Exhibit 3 to the pleading herein, providing for the sale of the water system for the basic cash price of \$652,070, subject to adjustments to reflect changes, from June 30, 1965 to the closing date, in certain balance sheet items. The following Table II shows the June 30, 1965, level of those items, as listed in the agreement:

TABLE II
Items Affecting Purchase Price Adjustment

<u>Item</u>	<u>As of June 30, 1965</u>
Plant in Service	\$ 986,134
Construction Work in Progress	0
Depreciation Reserve	(109,680)
Advances for Construction	(212,580)
Contributions in Aid of Construction	(62,865)
Total	601,009

(Subtractive Item)

Buyer agrees to assume and perform the obligations of seller under all water main extension agreements relating to the water system to be transferred. Seller agrees to provide buyer with

complete details relative to such agreements. Seller also agrees to refund, on or before the closing date, all customers' deposits for establishment of credit. The assets to be transferred include seller's records, maps and drawings.

The Commission finds that:

1. The proposed sale and transfer is not adverse to the public interest.
2. It is fair and reasonable, unless and until otherwise ordered by this Commission, for buyer to apply its rules and seller's rates to seller's present service area and to the contiguous area to be included in buyer's Crest Tariff Area, pursuant to the order herein.
3. A Commission investigation of seller's operation, Case No. 7937, has been submitted but decision therein has not yet been issued.
4. A public hearing is not necessary.

The Commission concludes that the application should be granted as provided in the order which follows. The action taken herein does not constitute a finding as to the value or original cost of the properties to be transferred.

ORDER

1. a. Within sixty days after the effective date of this order, Crest Water Company (seller) may transfer to California Water Service Company (buyer) the water system and certificates of public convenience and necessity referred to herein, substantially in accordance with the terms of the agreement, Exhibit 3 to the pleading herein.
- b. Within five days after the date of actual transfer, seller and buyer jointly shall file in this proceeding a written statement showing the date of transfer, together with a true copy of the instrument of transfer.

c. Within ninety days after the date of actual transfer, buyer shall cause to be filed with the Commission, in such form as it may prescribe, an annual report of seller covering the year 1965 and an annual report of seller covering the period from the first day of 1966 to and including the effective date of the transfer.

2. a. After the effective date of this order, and not less than five days before the date of actual transfer, buyer shall file new and revised tariff sheets, including tariff service area maps, to provide for the application of buyer's present rules and seller's present rates to seller's service area and certain contiguous areas, which service area and contiguous areas are delineated in red and green respectively on Exhibit A to Exhibit 3 to the pleading herein and are to be designated "Crest Tariff Area." Such filing shall comply with General Order No. 96-A. The effective date of the new and revised tariff sheets shall be the date of actual transfer.

b. Unless and until uniform rates are authorized for buyer's Crest Tariff Area and Bakersfield Tariff Area, or until different accounting procedure is authorized by further order of this Commission, buyer shall segregate plant investment, depreciation reserve, advances for construction, contributions in aid of construction, revenues and direct operating expenses of the Crest Tariff Area from the rest of buyer's utility operations, and shall make appropriate allocations of such items as are common to the two tariff areas.

3. Upon compliance with all of the conditions of this order, seller shall stand relieved of its public utility obligations, may discontinue service concurrently with the commencement of service by buyer, but shall remain subject to whatever order is issued in the submitted Commission investigation, Case No. 7937.

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

Dated at San Francisco, California, this 18th day of JANUARY, 1966.

Fredrick B. Hildebrandt
President
Robert E. Hildebrandt
George W. Hoover
Reginald
William L. Bennett
Commissioners