

ORIGINALDecision No. 70812

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application
of William G. Wilson, doing
business as Southwood Park Water
Company and the City of Santa
Rosa, a Municipal Corporation,
for authorization to execute a
contract of sale to convey the
Southwood Park Water Company's
system to the City of Santa Rosa.

Application No. 48300
(Filed March 10, 1966)

William G. Wilson, for himself, seller.
John A. Klein, for City of Santa Rosa, buyer.
Jerry R. Bick, Jr., for Roseland Fire Protection
District, interested party.

O P I N I O N

William G. Wilson (seller), an individual, doing business as Southwood Park Water Company, seeks authority to transfer his water system to the City of Santa Rosa (buyer), and to discontinue service. Buyer joins in the application.

A public hearing was held before Examiner Catey at Santa Rosa on May 4, 1966. Notice of hearing had been published in accordance with this Commission's rules of procedure. Testimony was presented by seller, by buyer's Water Department Superintendent, by buyer's Director of Finance and by a representative of buyer's City Manager. There were no protests against the proposed transfer. The matter was submitted on May 4, 1966, subject to receipt of certain late-filed exhibits, all of which have been received.

Seller and Buyer

Seller provides water service to some 365 customers in unincorporated territory in Sonoma County, located about one mile south of buyer's city limits. Buyer is the county seat of Sonoma

County and, in cooperation with that county, has extended and is extending municipal sewer and water service into areas outside of buyer's city limits. Buyer's Water Department Superintendent testified that the city's water system already serves the territory surrounding seller's system.

Agreement of Sale

On March 1, 1966, buyer and seller entered into an agreement for transfer of seller's water system to buyer. A copy of that agreement is Exhibit "A" attached to the application. The agreed cash purchase price is \$139,000.

Exhibit No. 5 includes the following summary of certain of seller's 1965 year-end account balances:

<u>Item</u>	<u>Amount</u>
Utility Plant	\$181,052
Depreciation Reserve	17,161
Customers' Deposits	2,800
Advances for Construction	78,742
Contributions in Aid of Construction	0

Seller and buyer stipulated that they have no objection to modifying the purchase agreement to provide for the refund, prior to the transfer of the system, of all customers' deposits made to establish credit.

Seller testified that, apart from his public utility operation, he was one of the developers of real estate subdivisions within the service area of his water system. Pursuant to the utility's water main extension rule, he has advanced funds from his subdivision operations, which funds are subject to refund. In addition, he has acquired the main extension agreements of all other developers who similarly had advanced funds. He is thus in a position, and proposes, to sell the water system to buyer free and clear of any obligation to refund outstanding advances for construction.

Seller and buyer allege that the transfer was negotiated because seller wishes to dispose of his water system and buyer desires to incorporate that system into its own water system, which it plans to expand in the immediate vicinity. Buyer obtains its water supply from Sonoma County Flood Control and Water Conservation District, which has access to a supply from a nearby principal aquaduct which transports water from Coyote Reservoir and the Russian River Aquaduct. Buyer's Board of Public Utilities and City Council have authorized the execution of the proposed purchase agreement.

Buyer points out that, upon transfer of the system, seller's present customers will receive water of better quality, will have more water available for peak demands and fire protection, will receive more reliable service due to integration with the surrounding city-owned system, and will become eligible for municipal sewage disposal.

Rates:

A direct comparison of seller's and buyer's present water rates is somewhat complex because (1) seller's rates are based upon consumption in hundreds of cubic feet whereas buyer's rates are in 1,000-gallon units, (2) seller's rate schedules incorporate minimum charges and block rates whereas buyer's rates for service outside its city limits also include a service charge, and (3) seller's rates are set forth on a monthly basis whereas buyer's are bimonthly. A more meaningful comparison is a summary of corresponding water bills for specific bimonthly use of water through a standard 5/8 x 3/4-inch meter. The following comparisons cover a range of from approximately one-half to double the average monthly consumption per customer in the Southwood Park area:

<u>Bimonthly Use</u>		<u>Bimonthly Bill</u>		<u>Increase in Bill</u>	
<u>Gallons</u>	<u>Cu.Ft.</u>	<u>Seller</u>	<u>Buyer</u>	<u>Amount</u>	<u>Percent</u>
10,000	1,337	\$ 9.01	\$ 8.80	\$(0.21)	(2)
20,000	2,674	12.68	13.60	0.92	7
30,000	4,011	16.02	18.40	2.38	15
40,000	5,348	18.70	22.50	3.80	20

(Decrease)

Seller testified that his present rates do not provide an adequate return on his investment and that it will be necessary for him to request a rate increase if he continues to operate the system.

Buyer's Water Department Superintendent testified that it is buyer's policy to make its water system financially self-supporting but that certain factors, such as the freedom of the water department from payment to the city of ad valorem and franchise taxes, result in indirect subsidies from the city taxpayers. It is apparently buyer's intent to maintain only such differential between rates it charges for water service inside and outside the city limits as are justified to keep the service outside of the city limits from burdening city taxpayers.

Finding and Conclusion

The Commission finds that the proposed transfer is not adverse to the public interest and concludes that it should be authorized, subject to the conditions of the order which follows.

The authorization herein granted does not constitute a finding as to the value of the properties herein authorized to be transferred.

O R D E R

IT IS ORDERED that:

1. Within one year after the effective date of this order, William G. Wilson (seller) may transfer to the City of Santa Rosa

(buyer) the public utility water system serving Southwood Park and vicinity, substantially in accordance with all of the terms (except as to transfer of customers' deposits) of the agreement, Exhibit "A", attached to the application.

2. The foregoing authority is conditioned upon the filing in this proceeding of a stipulation by buyer that:

- (a) Buyer will be subject to all legal claims for water service which might have been enforced against seller, including such claims as may exist in territory outside of buyer's boundaries.
- (b) As to the rates, rules and conditions of service which buyer will apply in the service area of the system herein authorized to be transferred, it will not discriminate between service rendered outside its city boundaries and service rendered inside said boundaries, except insofar as it may adjust such outside rates and charges to offset any reasonable tax burden sustained by water users within the city in subsidizing the operation of the city's water system.

3. On or before the date of actual transfer, seller shall return to customers any refundable deposits made to establish credit.

4. Within ten days after the date of actual transfer, seller shall file in this proceeding written notification of the refunding of all deposits, the date of transfer, and the date upon which buyer shall have assumed operation of the water system authorized herein to be transferred. A true copy of the instrument or instruments of transfer shall be attached to the written notification.

5. Upon compliance with the conditions of this order, seller shall stand relieved of all of his public utility obligations in the area served by the transferred system, and may discontinue service concurrently with the commencement of service by buyer.

The effective date of this order shall be established by supplemental order herein, after seller and buyer shall have complied fully with the requirements of ordering paragraphs 2 and 3.

Dated at San Francisco, California, this 8th day of JUNE, 1966.

Fredrick B. Halbach
President
John E. Mitchell
George L. Traver
Morgan
Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.