

Decision No. 73785**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of S. O. PATTERSON and SHIRLEY R. PATTERSON, to purchase, and of HOWARD S. PULLIAM and WILMA D. PULLIAM, to transfer, the VISTA GRANDE WATER SYSTEM in Tehama County, California.

Application No. 49703
(Filed October 2, 1967)

O P I N I O N

Howard S. Pulliam and Wilma D. Pulliam, his wife, have requested authority to sell the unincorporated Vista Grande Water System, serving about 72 metered customers near Red Bluff, to S. O. and Shirley R. Patterson, husband and wife, present owners of the Las Flores Water Works, located about 10 miles south of the Vista Grande System. The Pulliams acquired their certificate in 1959 (Decision No. 57920, Application No. 40586) and are now living in Guaymas, Mexico. The Pattersons acquired the Las Flores System by transfer in 1966 (Decision No. 70296, Application No. 48105).

The Vista Grande water facilities and associated properties, together with details of the financial arrangements involved in the proposed transfer, are described in a report, submitted November 21, 1967 by a Commission Financial Examiner based on his investigation of the application. The report is hereby included in this record as Exhibit 1.

The application, supplemented by the staff's investigation, discloses that the transfer, for a total price of \$30,000, is to be effected by a real estate purchase contract (Application, Exhibit "D") that provides for a \$500 cash deposit, \$3,500 into escrow and the

balance, \$26,000, in the form of a promissory note secured by a first deed of trust, payable at the rate of \$200 or more per month, including 6 percent interest, over an 18-year term.

Financial data submitted by applicants and reviewed by the staff indicate that while buyers appear to be acquiring, for \$30,000, utility properties having a depreciated original cost, as of September 1, 1967, of \$17,433, thus resulting in a debit acquisition adjustment of \$12,567, the assets being acquired include some nonutility properties not shown as such in the plant account balances at December 31, 1966. The nonutility properties comprise two parcels of land, Lots 23 and 25, and improvements thereon consisting of a dwelling, garage and several outbuildings on Lot 23 and an office building on Lot 25. (The staff's report notes the possibility that the sum of \$3,126, shown for "Structures" in the utility's annual report of plant accounts and related depreciation, as of December 31, 1966, may represent the cost of some of the nonutility structures indicated above.)

The record discloses that the buyers intend to convert the above-described structures to nonutility use as rental units, and that they are not willing to join in an amendment to the application to eliminate the land and buildings that will not be used in utility operations and thus to reduce the encumbrance against utility properties.

The utility's annual report for 1966, hereby included in this record by reference, shows a net operating income of \$1,800 after deducting \$650 for depreciation. The application does not indicate the amount of net rental income buyers might realize from the dwelling or other rentals of nonutility structures. Thus, the

indicated cash flow does not appear to cover repayment of the purchase loan.

Accordingly, the staff has recommended (Exhibit 1, par. 9) that issuance of a promissory note for \$26,000 be authorized, in view of applicants' financial statement and the fact that a substantial part (\$12,567) of the indicated \$30,000 purchase price appears to be attributable to the acquisition of nonutility properties. The staff has also recommended (Exhibit 1, par. 10) that certain plant balances be recorded by applicants in their books of account so as to reflect utility and nonutility property and related depreciation reserves.

The Commission finds that:

1. The proposed transfer, subject to the staff's recommendations (Exhibit 1, pars. 9, 10 and 11), hereby adopted, would not be adverse to the public interest.
2. The money, property or labor to be procured or paid for by the issue of the indebtedness herein authorized is reasonably required for the purposes specified herein, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The Commission concludes that the application herein should be granted in accordance with the provisions of the ensuing order.

The authorization herein granted shall not be construed as a finding of the value of the rights and properties herein authorized to be transferred.

Applicants, S. O. and Shirley R. Patterson, are hereby placed on notice that the Commission reserves the right, in any further proceedings involving the Vista Grande Water System, to

allocate the aforementioned promissory note to utility and non-utility operations.

A public hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. Howard S. and Wilma D. Pulliam, husband and wife, after the effective date of this order may transfer to S. O. and Shirley R. Patterson, husband and wife, the certificate of public convenience and necessity heretofore acquired by said Pulliams pursuant to Decision No. 57920, in Application No. 40586, together with the properties described in the application and staff report (Exhibit 1) herein as comprising the Vista Grande Water System.

2. Within thirty days after the date of actual transfer applicants S. O. and Shirley R. Patterson shall file with the Commission two fully conformed copies of the instrument or instruments of transfer, as executed, together with a notice of adoption of the existing tariff schedules of Vista Grande Water System on file with this Commission.

3. Applicants S. O. and Shirley R. Patterson are authorized to issue a promissory note in the sum of not to exceed \$26,000 for acquisition of the properties herein authorized to be transferred.

4. Applicants S. O. and Shirley R. Patterson shall record in their books of account the utility plant account balances in the total amount of \$22,553, and the related reserve for depreciation as of August 31, 1967, in the total amount of \$5,120, except that if the structures are not part of the utility plant, then applicants shall record the structures and related depreciation reserve as non-utility water property.

5. On or before the end of the third month after the date of actual transfer, buyers shall cause to be filed with the Commission, in such form as it may prescribe, an annual report covering operations of the sellers for the calendar year 1967.

6. Upon completion of the sale and transfer herein authorized and upon compliance with all the terms and conditions of this order, Howard S. and Wilma D. Pulliam shall be relieved of their public utility obligations in connection with the utility system herein authorized to be transferred.

7. The authority herein granted to issue a note will become effective when applicants S. O. and Shirley R. Patterson have paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$26.00. In other respects the effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 27th day of FEBRUARY, 1968.

[Signature]
President

[Signature]

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Commissioners

