

ORIGINALDecision No. 78752

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of John A. Hagan and
 Evelyn Hagan doing business as
 Phillippsville Water Co. to sell
 and Darrell J. Beasley and Ruth E.
 Beasley to buy the water system in
 Phillippsville, Humboldt Co.

Application No. 52347
 (Filed December 9, 1970)

O P I N I O N

Applicants John A. Hagan and Evelyn Hagan (hereinafter called Sellers) are the owners of a public utility water system known as Phillippsville Water Co. which serves in an area described as Riverview Acres Subdivision and vicinity along Avenue of the Giants and the South Fork of the Eel River in the community of Phillippsville under a certificate of public convenience and necessity granted by Decision No. 45704 issued May 15, 1951 in Application No. 31928. Sellers desire to dispose of the system in order to retire and request to be relieved of public utility responsibilities related to the system proposed to be transferred.

Applicant Darrell J. Beasley is engaged in the sand and gravel business and applicant Ruth E. Beasley, his wife, is post-mistress at Phillippsville. It is alleged that said applicants (hereinafter called Buyers) are familiar with the plant, have experience and equipment and are the only residents of Phillippsville capable of taking over the business. The financial statement of Darrell Beasley is attached to the application as Exhibit B.

In the application applicants state that the original cost of the property to be transferred is \$17,306 and the depreciation reserve as of December 31, 1969, is \$9,185 resulting in a net book

cost as of said date of \$8,121. The selling price is stated to be \$13,260 of which \$1,000 is to be paid down and the balance of \$12,260 with interest at 6 percent per year is payable in annual installments of not less than \$500 nor more than \$3,000.

Buyers propose to adopt the presently filed tariffs of the Sellers and agree to be bound by any outstanding Commission decisions and/or directives involving the water system to be transferred.

Both Sellers and Buyers warrant that there are no customer deposits to establish credit and no main extension advances.

A Financial Examiner of the Commission staff prepared a memorandum dated February 26, 1971, pertaining to the application herein which is made a part of the record in this proceeding as Exhibit No. 1. In Exhibit No. 1 the staff points out that under the terms of the note as written it appears that the principal of \$12,260 need not be repaid since an annual installment payment of \$500 is not sufficient to cover the annual interest on the note. The staff has informed the applicants of the indefiniteness with respect to the terms of the installment note.

According to Exhibit No. 1 as of December 31, 1970 recorded cost of the plant to be transferred after staff adjustments is as follows:

Land	\$ 523 *
Water Treatment Equipment	638
Tanks	4,585
Water Mains	8,432
Meters	747
Other Equipment	<u>112</u>
Total	\$15,037
Reserve for Depreciation	<u>(8,921)</u>
Net Utility Plant	\$ 6,116

* Revised per staff's memorandum dated May 11, 1971, Exhibit No. 2 herein.

The staff's conclusions and recommendations are as follows:

The Buyers, Darrell J. and Ruth E. Beasley, appear to be financially able and experienced to assume the responsibilities of operating a water utility. They are also long established residents of the community and are acquainted with the water system. The staff has no objection to the proposed sale, but it should be noted that the application contains the following discrepancies:

- (a) The application does not include a request for the required authorization for issuance of a long-term promissory note in the prayer.
- (b) The terms of payment of the proposed note provide no provision for the repayment of principal.
- (c) The proposed note of \$12,260 exceeds the recorded book value of the water system.

By letter dated April 1, 1971, applicant John A. Hagan requested that the application be amended as follows:

"It is requested that authority be granted for the issuance of a long term promissory note as an instrument of record in process of sale.

"Substitute enclosed 'Sellers escrow instructions' for one now attached to application # 52347."

The Sellers Escrow Instructions attached to the letter provide that Darrell J. Beasley and Ruth E. Beasley will execute a Deed of Trust in favor of John A. Hagan and Evelyn Hagan covering the property described to secure a note for \$12,260, with interest at 6 percent per annum; principal payable in annual installments of \$500, but not more than \$3,000 per year, beginning one year from date of close of escrow and continuing until paid in full. The interest is to accrue from the close of escrow and is to be payable annually, beginning on October 1, 1971.

Said letter from John A. Hagan, owner, to the Commission dated April 1, 1971, and the attachments thereto are made a part of the record herein as Exhibit No. 3.

The Commission finds that:

1. The proposed sale and transfer is not adverse to the public interest.

2. Buyers have the financial resources to acquire and operate the water system called Phillipsville Water Co.

3. It is reasonable for Buyers to apply the present rates of Sellers in the service area of Phillipsville Water Co.

4. Buyers should be authorized to issue the long-term promissory note and deed of trust as requested in Exhibit No. 3.

5. The money, property or labor to be procured or paid for by the issuance of 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.

6. The amount of \$7,144 should be charged to Account No. 100.5, Utility Plant Acquisition Adjustments. This amount is the purchase price of \$13,260 less \$6,116, the book value of the water system.

7. A public hearing is not necessary.

On the basis of the foregoing findings the Commission concludes that the application should be granted as provided by the following 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 nor as indicative of the amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. On or after the effective date hereof and on or before July 30, 1971, John A. Hagan and Evelyn Hagan (Sellers), doing business as Phillippsville Water Co., may transfer and sell to Darrell J. Beasley and Ruth E. Beasley, his wife (Buyers), and the latter may acquire the public utility water system referred to herein, substantially in accordance with the terms of the transfer agreement attached to the Exhibit No. 3, together with the operating rights pertaining thereto.

2. Buyers shall file, within ten days after the effective date of the transfer, a notice of adoption of the presently filed rates and rules of Sellers, in accordance with the procedure prescribed by General Order No. 96-A. No increases in presently filed rates shall be made unless authorized by this Commission.

3. On or before the date of actual transfer of the specific properties herein authorized, applicants John A. Hagan and Evelyn Hagan shall transfer and deliver to Buyers Darrell J. Beasley and Ruth E. Beasley and the latter shall receive and preserve all records, memoranda and papers pertaining to the construction and operation of the properties herein authorized to be transferred.

4. On or before the end of the third month after consummation of the transfer as herein authorized, Buyers shall cause to be filed with the Commission, in such form as the Commission may prescribe, an annual report, or reports, related to the operations of Sellers for the period commencing with the first day of the current year to and including the effective date of the transfer.

5. Within ten days after the actual date of transfer, Sellers and Buyers jointly shall file in this proceeding (a) a written statement showing the date of transfer and the date upon which Buyers assumed operation of the water system herein authorized to be transferred, and (b) a true copy of each instrument of transfer of said water system and operating rights.

6. For the year 1971, Buyers shall apply a depreciation rate of 2.7 percent to the original cost of depreciable plant. Until review indicates otherwise, Buyers shall continue to use this rate. Buyers shall review their depreciation rates at intervals of five years and whenever a major change in depreciable plant occurs. Any revised depreciation rate shall be determined by: (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant, (2) dividing the result by the estimated remaining life of the plant, and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to this Commission.

7. Buyers are authorized to issue the long-term promissory note and deed of trust as requested in Exhibit No. 3 herein.

8. Buyers shall file, within ninety days after the effective date of the transfer, two copies of the water system map, required by paragraph I.10.a. of General Order No. 103 of the water system facilities herein authorized to be transferred.

9. Upon completion of the transfer of the public utility water system pursuant to this order, Buyers shall charge the amount of \$7,144 to Account No. 100.5, Utility Plant Acquisition Adjustments.

10. Upon compliance with all of the above conditions of this order, Sellers shall stand relieved of all further public utility obligations in connection with the operation of the public utility water system properties and operating rights herein authorized to be transferred.

The authority herein granted to issue a note and deed of trust will become effective when Buyers have paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$50.00. In other respects the effective date of this order shall be twenty days after the date hereof.

Dated at San Diego, California, this 2nd day of JUNE, 1971.

[Signature]
Chairman
William J. [Signature]
[Signature]
Vernon L. Stinger
[Signature]
Commissioners

