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ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and)
Electric Company and Western Canal)
Water Users' Association for an)
order authorizing the former to sell)
and convey to the Western Canal Water)
District certain water facilities,)
known as the Western Canal Water)
System, in accordance with the terms)
of a proposed purchase agreement.)

Application 84-10-070
(Filed October 26, 1984)

(Water)

INTERIM OPINION

Pacific Gas and Electric Company (PG&E) and the Western Canal Water Users' Association (Association) seek an order of the Commission:

1. Granting PG&E authority to sell and convey to the Western Canal Water District (District) certain transmission and distribution facilities, known as the Western Canal Water System (System), pursuant to the proposed purchase agreement between PG&E and the District (Agreement), and
2. Relieving PG&E of its public utility obligations as a water corporation with respect to service of water from the System.

The Association is an unincorporated association composed of all users on the System. The users formed the Association for the purpose of representing their position in Commission proceedings regarding rates charged by PG&E for water use on the System. Now the Association is forming a water district for the purpose of purchasing the System from PG&E and operating it on behalf of the Association's members.

The Association's members, all of whom are rice farmers, unanimously support formation of the District and purchase of the System from PG&E by the District. Their principal motivation is the desire to stabilize and possibly reduce the System's operating cost. Rice farming is beset with serious economic problems due to intense worldwide competition and other market conditions. The rice farmers served by the System are seeking control over the price of all commodities used in the cultivation of rice, including water, in order to reduce those expenses to the extent they can. In particular, through the formation of the District, the Association's members plan to implement a two-part rate structure consisting of assessments and water charges in order to insure long-term rate stability and recoupment of costs from all lands the System benefits. In addition, formation of the District will permit the use of short-term and long-term financing at favorable rates as may be required for the System's future improvement and expansion.

The Local Agency Formation Commission of the County of Butte and the Butte County Board of Supervisors have unanimously authorized the formation of the proposed District and approved its boundaries. The board also set December 18, 1984, for the initial election to determine landowners' support for the District, to establish an initial Board of Directors, and to authorize financing for purposes of the purchase from PG&E.

The District will finance purchase of the System from PG&E by the issuance of warrants repayable over a seven-year term. The warrants will be purchased at public auction by lending institutions or individuals. The Association has received a commitment from Security Pacific Bank to purchase the warrants, and this commitment expires January 1, 1985.

The District will hire a general manager and seven to ten other employees for the purpose of operating the System during the irrigation season. PG&E will train the District personnel prior to the closing date. The laterals off of Western Canal which serve the

lands on the System have been operated primarily by the landowners. Accordingly, the landowners already have developed expertise in maintaining and operating the System. The Association is confident that with this expertise, the equipment available to the District, the additional personnel, and the training by PG&E, it will continue to provide the excellent service to customers that PG&E has provided in the past.

The System serves an area of approximately 55 square miles or 57,000 acres between the Feather and Sacramento Rivers north of the Richfield Irrigation District in Butte and Glenn Counties. About 45,000 acres are irrigable, i.e. they regularly receive irrigation service from the System. There is no specific filed service area, which is typical of most irrigation systems, because the same areas may not be served every year. The System is predominantly a trunk water system extending a total length of approximately 31 miles. It consists of a large main canal, lateral canals, numerous floodgates, check gates, and drain structures. Water for the System is diverted from the Feather River at the Department of Water Resources Thermolito Afterbay, and some water originates in Butte Creek. The principal use of the water is for the irrigation of rice.

Applicants have attached to their application a map of the boundaries of the proposed District as adopted by the Butte County Board of Supervisors. Those boundaries include only those areas which have received firm service from the System. No customers or acreage which has received regular service from PG&E has been deprived of admission into the Association or the District, and no expansion of the boundaries of the System beyond the areas historically served under firm contract with PG&E is proposed at this time. PG&E has informed the Association that reliable service cannot be supplied to additional lands at this time. Once the District has gained some operating experience, the Board of Directors will consider applications for annexation and/or surplus water, depending on the requirements of the District and the available supplies of water.

The historical cost of the facilities to be conveyed was \$2,734,765.22 as of December 31, 1983. The accrued depreciation as of that date was \$1,417,069.94, and the net book value of the System was \$1,317,695.28.

The purchase price for the System is \$2 million. The purchase agreement provides that the closing date shall be within 120 days after the Commission has given its approval to the sale of the System. However, it also provides that the District shall pay PG&E \$40,000 per month from January 1, 1985 to the closing date, subject to an offset for revenues billable under Schedule No. WC-1.

During 1983, PG&E supplied water service from the System to a total of 126 customers and received approximately \$382,000 in gross revenues from those customers. On October 17, 1984, the Commission issued Decision 84-10-051 in Application (A.) 84-02-27 authorizing rates under Schedule No. WC-1 designed to produce operating revenues of \$973,700 in 1984 and \$1,032,600 in 1985.

PG&E has entered into the purchase agreement because it does not wish to remain in the water business. In the course of its electric business PG&E has acquired facilities used by its predecessors for the sale of water on a public utility basis. From time to time PG&E has sold water facilities thus acquired when such facilities could be disposed of without adversely affecting the water customers.

PG&E is a water corporation only incidentally to its electric business and in most areas does not wish to remain in the water business. PG&E has determined that the System can be disposed of without affecting PG&E's other operations.

PG&E and the Association alleged that each believes that the proposed purchase agreement is fair, just, and reasonable to the parties thereto and to the customers affected thereby. Approval of the sale pursuant to the proposed purchase agreement would place ownership of the System in the hands of a public agency whose members are elected by the users of the System.

PG&E and the Association both desire to consummate this transaction at an early date and therefore request that no hearing be required in connection with the application. Applicants assert that no hearing is necessary because a public hearing was conducted on September 18, 1984, before the Butte County Board of Supervisors. Since every System customer is a member of the District being formed to purchase the System, no written notice of the pendency of this application is necessary, according to applicants.

The applicants, PG&E and Association, request that the Commission issue an order: (1) granting PG&E authority to sell and convey the Western Canal Water System to the Western Canal Water District upon the terms and conditions set forth in the proposed purchase agreement attached to the application; and (2) relieving PG&E, as of the closing date defined in the proposed purchase agreement, of all obligations imposed upon it as a public utility in connection with the System.

Discussion

There is no opposition to the application and, accordingly, there is no need to hold a public hearing. From the application it is clear that the purchase agreement was the result of arm's-length negotiations. The parties assert that their agreement is fair, just, and reasonable both as to themselves and as to the customers affected. Since the customers are identical to the members of the Association, it follows that if the transaction is fair, just, and reasonable to the Association it is fair, just, and reasonable to the customers.

As indicated earlier the purchase price of \$2 million is in excess of the net book value of the System of \$1,317,695.28. The difference is \$682,304.72. The parties to the proposed purchase agreement apparently assumed that the full purchase price of \$2 million would go to PG&E and its shareholders. At least the proposed purchase agreement makes no comment on the disposition of the

difference between purchase price and depreciated historical cost. However, the issue of the disposition of this difference is the same issue now being considered in A.83-04-37. Rather than delay approval of this transaction between PG&E and the District we will authorize the consummation of the transaction while reserving disposition of the issue of the gain on the sale until our resolution of that issue in A.83-04-37.

Findings of Fact

1. The Association is an unincorporated association composed of all users on the System.
2. The Association is in the process of forming a new District called the Western Canal Water District under the provisions of Division 13 of the California Water Code.
3. The District boundaries include all the lands and users heretofore served from the canal by PG&E.
4. When the District takes over the operation of the water system it will have the employees, the training, the equipment, and the financial ability to render service in the same manner as PG&E has provided service in the past.
5. There are no protests.
6. A public hearing is not necessary.

Conclusions of Law

1. Upon closing of the transaction PG&E should be relieved of its public utility obligations with respect to the System.
2. PG&E should be required to defer classification of the gain realized over depreciated historical cost of the water facilities involved in this transaction until further order of the Commission.
3. The application should be granted as provided in the following order.
4. The following order should be effective immediately so that the other steps in the formation of the District and in the issuance of warrants may go forward in a timely fashion.

INTERIM ORDER

IT IS ORDERED that:

1. Within six months after the effective date of this order Pacific Gas and Electric Company (PG&E) may sell and transfer to the Western Canal Water District (District) certain transmission and distribution facilities, known as the Western Canal Water System (System), pursuant to the proposed purchase agreement between PG&E and the District attached to the application.

2. Within ten days after transfer, PG&E shall write the Commission stating the date of transfer and the date when the District began operating the water system. A copy of the transfer documents shall be attached.

3. Within ten days of the actual transfer, PG&E shall record the gains accruing from this sale and transfer in an appropriate suspense account and retain them in that account until further order of the Commission.

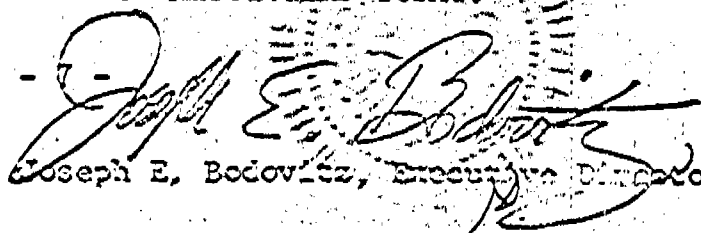
4. Upon compliance with this interim order, PG&E shall stand relieved of its public utility obligations in connection with the System.

5. The application is granted as set forth above. ✓
This order is effective today.

Dated December 5, 1984, at San Francisco, California.

DONALD VIAL
President
VICTOR CALVO
PRISCILLA C. GREW
WILLIAM T. BAGLEY
FREDERICK R. DUDA
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Joseph E. Bodovitz, Executive Director

INTERIM ORDER

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3. Within ten days of the actual transfer, PG&E shall record the gains accruing from this sale and transfer in an appropriate suspense account and retain them in that account until further order of the Commission.

4. Upon compliance with this interim order, PG&E shall stand relieved of its public utility obligations in connection with the System.

This order is effective today.

Dated DEC 5 1984, at San Francisco, California.

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