

Decision 87 10 028

OCT 16 1987

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Cora K. Frost, doing )  
business as Tahoe Swiss Village )  
Utility (U 98W) and Tahoe Pines )  
Water Co. (U 97W), to sell and )  
Tahoe Swiss Village Utility )  
Incorporated to buy the water )  
systems in Tahoe Swiss and Tahoe )  
Pines, Placer County, California. )

Application 87-04-022  
(Filed April 14, 1987)

**ORIGINAL**

OPINION

This is a joint application of Cora K. Frost, doing business as Tahoe Pines Water Company (TP) and Tahoe Swiss Village Utility (TSV), who seeks authorization to transfer and sell the water systems and of Tahoe Swiss Village Utility, Inc. (TSV Inc.) to acquire the two systems located in or near the community of Homewood in Placer County. The application is filed under Public Utilities Code Sections 851 through 854.

The contract of sale, dated November 22, 1986, is between Cora K. Frost (seller) and Steve Glazer, Sam Glazer, and Irma Glazer (buyers), as individuals. The buyers subsequently received authorization to incorporate as Tahoe Swiss Village Utility, Inc. on January 13, 1987. The application for transfer is to the new corporation.

The applicants state that the seller desires to dispose of the system because she no longer lives in the area and has lost the desire to manage the two systems. The buyers desire to acquire the two systems because Steve Glazer, the president and general manager of TSV Inc., would be living adjacent to the service area and would work with and improve the system. His resume attached to the application indicates that he has experience in managing and operating a water system.

The application states that the original cost of property being transferred is \$225,321 with a related reserve for depreciation of \$117,774 as of December 31, 1985. The purchase price is \$123,413 plus \$19,587 in consulting work or a total of \$143,000. The contract of sale requires a down payment of \$40,000 with the balance covered by a 15-year promissory note with interest at 10% per annum and payable in monthly installments of \$1,106.84 including principal and interest.

The \$123,413 portion of the purchase price represents the beginning and end of year average net plant of TP and TSV for 1985, as reflected in their annual reports on file with the Commission. Whether this portion of the purchase price includes a premium over net plant value cannot be known until the sale is consummated and the plant and depreciation reserves on the date of sale established. The \$19,587 could be viewed as either a premium paid above net plant value or as a prepayment for services to be rendered by the seller in the future. It is not necessary to answer these questions in this proceeding. However, the buyer is put on notice that the premium paid above net book value, if any, may not be included in rate base for the purpose of determining rates in the future. Further, we will require a high standard of proof that any consulting work claimed to be purchased with the \$19,587 was truly necessary before allowing any portion of that amount to be considered in setting future rates.

Applicants warrant that there are no customer deposits to establish credit, no main extension advances, and that the condition of the system is good. Buyers further propose to adopt the presently filed tariffs of the seller and to be bound by any outstanding Commission decisions and/or directives involving the water systems being transferred.

TSV serves approximately 73 residential and 1 other customers in the unincorporated area known as Tahoe Swiss Village and vicinity. TSV has one intake pump and uses Lake Tahoe as its

source of supply. TSV's certificate of public convenience and necessity was granted by Decision (D.) 64091 on August 7, 1962.

TP serves about 210 residential, 9 industrial, and 2 other customers within certain portions of Tahoe Pines Tract and adjacent portions of Idlewood Tract lying east of the state highway. TP has one intake pump and uses Lake Tahoe as its source of supply. TP also has one spring or stream source that is not used. TP's certificate of public convenience and necessity was granted by D.42183 dated November 3, 1948.

The Water Utilities Branch of the Evaluation and Compliance Division reviewed the application and submitted a report which is received as Exhibit 1 in this proceeding. Exhibit 1 indicates that the application does not contain a copy of the deed to real property which it understands to be easements only;<sup>1</sup> the cost of property being transferred is based on December 31, 1985 Annual Report Data with the 1986 Annual Reports being delinquent; although the Annual Reports show transportation equipment, the buyer has indicated that no vehicles were included in the transfer; the reserve for depreciation shown on the application is understated by \$5,000 compared to the amounts shown in the Annual Reports; there are no known outstanding Commission compliance orders or improvements required; and that new owners defer the request to combine the two systems as a separate action following the completion of the transfer application since there are differences in the rates in the two systems which must be resolved.

#### Discussion

The Water Utilities Branch has reviewed this application and concludes that the transfer is reasonable and not adverse to the public interest. It recommends that the application be granted

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<sup>1</sup> A copy of the easements deeds were provided on August 19, 1987.

ex parte subject to the conditions set forth in paragraph 24 of Exhibit 1.

Our review of the application together with the attachments leads us to conclude, like the Water Utilities Branch, that the proposed transfer and sale of TP and TSV to TSV Inc. is reasonable and in the public interest. We are persuaded by the fact that the buyers' manager will be living adjacent to the service area, is experienced in managing and operating a water system, and is interested in working with and in improving the systems. Furthermore, the seller who is elderly and no longer living in the service area will be relieved of her public utility responsibilities. Buyers have indicated that they are aware that rates will be based upon the depreciated original cost of the plant, and not on the purchase price.

For these reasons, TSV Inc. should be authorized to acquire TP and TSV. The application was filed on April 14, 1987 and noticed on the Commission's Daily Calendar on April 21, 1987. Notice of the application to transfer was mailed to all customers on May 26, 1987 and was also published in The Tahoe World on April 30, 1987. The only response received did not object to the proposed transfer as long as the party was permitted to continue the privilege of walking by the company water tanks on the way to her cabin. There was also a further request to reduce the level of chlorination. Considering that there are no other complaints on file, it appears that this is an isolated problem. There is no need for hearings in this matter.

Findings of Fact

1. TP and TSV are public utility water companies operating under the jurisdiction of this Commission.
2. Cora K. Frost is the owner and seller of these two water companies.
3. Cora K. Frost seeks authorization to sell TP and TSV to TSV Inc.

4. TSV Inc. is a corporation formed by Steve Glazer, Sam Glazer, and Irma Glazer who entered into the contract of sale with Cora K. Frost to purchase TP and TSV water companies.

5. Steve Glazer, the president and manager of TSV Inc., is knowledgeable and experienced in operating a water system.

6. Buyers proposes to adopt the presently filed tariffs of TP and TSV and agree to be bound by any outstanding Commission decisions and/or directives involving the water systems being transferred.

7. Applicants warrant that there are no customer deposits to establish credit, no main extension advances, and that the system is in good condition.

8. The transfer and sale of TP and TSV to TSV Inc. will have no adverse effect on the customers.

9. Buyers have the financial resources to own and operate a public utility water system.

10. This authorization is not a finding of value of the rights and properties to be transferred.

11. It can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment.

12. The conditions set forth in paragraph 24, Exhibit 1 of the Water Utilities Branch report for approval of transfer are reasonable.

13. The only response received in connection with this application is not a protest to the application.

14. It is not necessary or possible at this time to determine whether a portion of the purchase price represents a premium paid over net plant value.

15. A public hearing is not necessary.

#### Conclusions of Law

1. The proposed transfer and sale is in the public interest and should be authorized.

2. The authorization herein granted is for the purpose of this proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

ORDER

IT IS ORDERED that:

1. On or before December 31, 1987, Cora K. Frost, dba Tahoe Pines Water Co. (TP) and Tahoe Swiss Village Utility (TSV), may transfer the water systems designated in the application to Tahoe Swiss Village Utility, Inc. (TSV Inc.), subject to the conditions set forth in Appendix A.

2. As a condition of this grant of authority, TSV Inc. shall assume the public utility obligations of the seller and shall notify the affected customers.

3. Within 10 days after transfer buyer shall write the Commission, stating the date of transfer and the date the requirements of paragraph 2 were completed.

4. Buyer shall either file a statement adopting the transferor's tariffs or refile those tariffs under its own name as prescribed in General Order Series 96. Rates shall not be increased unless authorized by this Commission.

5. Before the transfer occurs, seller shall deliver to the buyer, and buyer shall keep, all records of the construction and operation of the water systems.

6. Within 90 days after actual transfer buyer shall file, in proper form, an annual report on seller's operations from the first day of the current year through date of transfer.

7. When this order has been complied with, seller shall have no further obligations in connection with these water systems.

This order becomes effective 30 days from today.

Dated OCT 16 1987, at San Francisco, California.

STANLEY W. HULETT  
President

DONALD VIAL  
FREDERICK R. DUDA  
G. MITCHELL WILK  
Commissioners

Commissioner John B. Ohanian, being necessarily absent, did not participate.

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

  
Victor Weiss, Executive Director

APPENDIX A

TSV Inc. should be authorized to purchase TP and TSV  
subject to:

- a. Records and books of accounts are to be kept separately for the two utilities and the present tariffs are to be maintained until the Commission authorizes otherwise.
- b. The current recorded plant and rate base being subject to review, revision, and updating on any future proceeding.
- c. The filing of the 1986 annual reports for TP and TSV and payment of any penalties associated with late filings.
- d. TSV Inc. will update and maintain the tariff books for TP and TSV at a location convenient and accessible to the customers.
- e. TSV Inc. being responsible for seeing that PUC user's fees for the entire calendar year 1987 are paid.

(END OF APPENDIX A)