

Decision 88 01 006 JAN 13 1988

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Don Koontz doing)
business as NORMCO WATER COMPANY)
to sell and ALISAL WATER CORPORATION)
to buy the water system in Monterey)
County.)

Application 86-12-060
(Filed December 23, 1986)

O P I N I O N

This is an application in which Don Koontz (Koontz), doing business as Normco Water Company (Normco), seeks authority to sell Normco to Alisal Water Corporation (Alisal).

Notice of the filing of the application was mailed to each of Normco's customers on March 13, 1987. There are no protests.

The matter was held in abeyance pending the furnishing by applicants of information and documentation requested by the Water Utilities Branch (Branch). The material was submitted and Branch has prepared a report on the proposed sale and transfer which is designated Exhibit 1. The matter is ready for decision.

The Commission makes the following findings and conclusions.

Findings of Fact

1. A public hearing is not necessary in this matter.
2. Normco is a public utility water corporation subject to the jurisdiction of the Commission. (Resolution 64250, dated September 11, 1962.) It serves approximately 106 customers in an area described as Berta Canyon Subdivision No. 1, Tract No. 175, Prunedale, Monterey County, approximately eight miles north of the City of Salinas.
3. The Normco system consists of three wells with a total pumping capacity of 501 gallons per minute (gpm). A 40 hp well with 300 gpm pumping capacity was constructed in 1986. This

additional capacity can produce sufficient water within Normco's service area to serve the existing houses with individual wells and projected customers from planned developments. The system also includes one storage tank, pressure tanks, water mains, fire hydrants, service connections and casements. The storage tank has a capacity of 126,000 gallons. The pressure tanks each have a capacity of 2,000 gallons. Main sizes range from 2 inches to 6 inches in diameter. Most mains are 4 and 6 inches in diameter.

4. Alisal is a public utility water corporation subject to the jurisdiction of the Commission. It owns and operates a water system in the easterly portion of the City of Salinas and in unincorporated areas of Monterey County.

5. Koontz and Alisal entered into an agreement, subject to the approval of the Commission, under which Koontz agreed to sell Normco to Alisal for \$125,0000, payable as follows: \$25,000 in cash with the balance in the form of Alisal's promissory note for \$100,000, with interest at 10% per annum, payable in 240 equal monthly installments of principal and interest in the amount of \$965.05.

6. Koontz wants to retire from the operation of Normco with all the inherent problems associated with the day to day operation of a small water system. Alisal is a much larger public utility water system with over 50 years of service. Acquisition of Normco will provide the customers with the assurance of quality service and economies of operation not possible with a smaller utility.

7. Normco's annual report for the year ended December 31, 1986 shows the following:

Utility Plant-in-Service	\$317,141
Depreciation reserve	42,550
Advances	60,489
Contributions	162,562

This results in a net rate base of \$51,540. The annual report also indicates that Normco had \$47,576 in construction work in progress

(CWIP) and \$33,745 in cash. The \$47,576 of CWIP is expected to be included in Plant in Service, and thus rate base, during the following year. The Sales Agreement submitted to Branch in response to its data requests was executed on July 1, 1986 and states that the utility's cash was not included in the transfer. The company's 1985 annual report shows that, in 1985, it had no CWIP and \$704 in cash. The total equity investment in Normco during 1986 was \$72,678. This investment was for plant additions consisting of: new well; pumping equipment; mains; retaining wall.

8. As of August 31, 1986, Alisal had net utility plant of \$1,563,746. For the six months ending August 31, 1986, it had operating revenues of \$478,194.

9. Alisal has the ability, including financial ability, to acquire and operate Normco.

10. The proposed sale and transfer of Normco from Koontz to Alisal is not adverse to the public interest.

11. The Normco system has the following deficiencies:

- a. There are no fences around the Manzanita and Cocker pump stations.
- b. The Holly Hill tank's over-flow pipe is not connected to an underground drain causing the occasional overflow water from the tank to flow down the sidewalk to the street gutter.
- c. The Berta Canyon Well does not have a back-up chlorinator. The Monterey County Health Department indicates that the well had to be temporarily put out of service in the past because the one chlorinator needed to be repaired.

It is reasonable to require correction of these deficiencies as a condition of transfer.

12. The Service Improvement Policy, adopted by the Commission on June 15, 1983, requires Class C and D water companies to notify the customers and Branch of proposed plant additions if the

improvements would increase rate base by more than 25% in any one year. If the customer consensus is a desire to retain poor quality (but not unsafe) service rather than pay for improvements, the policy states that the Commission may decide not to allow the proposed improvements in rate base. The Service Improvement Policy does not apply to emergency repairs or conditions such as system failure, water outage, or sudden contamination. Figures submitted to Branch by Normco indicate that the company may have made improvements far in excess of those permitted by the Service Improvement Policy without following the procedures required. It is reasonable to put Alisal on notice that the Commission may not permit those amounts in rate base.

13. Alisal has agreed to refund customer deposits held by utility when they become due.

14. Alisal has agreed to assume any main extension advances which may exist.

15. The issuance of a promissory note as a part of the purchase transaction requires a certificate by the Commission, pursuant to PU Code § 816 et seq. and the payment of fees pursuant to PU Code 1904(b).

16. The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

17. Because the public interest would best be served by having the sale and transfer take place expeditiously, the ensuing order should be made effective on the date of issuance.

Conclusions of Law

1. The application should be granted with conditions.
2. Alisal should be authorized to issue a promissory note for \$100,000.

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

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order Don Koontz (Koontz) may transfer the public utility water system known as Normco Water Company (Normco) to Alisal Water Corporation (Alisal) in accordance with the terms of the application.
2. As a condition of this grant of authority, Alisal shall, within 90 days after the effective date of this order.
 - a. Install fences and lock-gates at Manzanita and Cocker Road pump stations to secure the facilities from vandalism.
 - b. Build an underground drain to carry the water from the Holly Hill tank's overflow pipe to the street gutter.
 - c. Install backup chlorination facilities at the Berta Canyon well.

Alisal shall notify the Water Utilities Branch in writing when each of these items has been done.

3. As a condition of this grant of authority, Alisal shall assume the public utility obligations of Koontz, shall assume liability for refunds of all existing customer deposits, shall assume any main extension advances which may exist and shall notify the affected customers.

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

5. Alisal shall either file a statement adopting Koontz'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.

6. Before the transfer occurs, Koontz shall deliver to Alisal, and Alisal shall keep, all records of the construction and operation of the water system.

7. Within 90 days after actual transfer Alisal shall file, in proper form, an annual report on Koontz's operations from the first day of the current year through date of transfer. When this order has been complied with, Koontz shall have no further obligations in connection with this water system.

8. Alisal is put on notice that to the extent that the utility has not complied with the Commission's Service Improvement Policy it may not be able to include plant improvements in its rate base in future rate proceedings, and that in making future additions it should comply with the provisions of the policy.

9. The authority granted by this order shall expire on December 31, 1988, if it has not been exercised by that date.

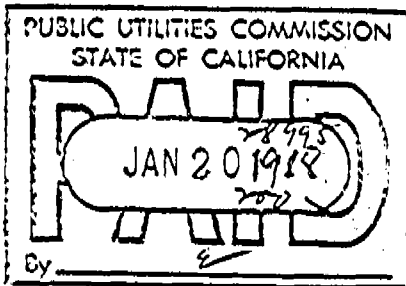
10. The authority granted by this order to issue an evidence of indebtedness will become effective when the issuer pays \$200, set by PU Code § 1904(b).

In all other respects this order is effective today.

Dated January 13, 1988, at San Francisco, California.

DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

Commissioner Stanley W. Hulett,
being necessarily absent, did
not participate.



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

Victor Weisser
Victor Weisser, Executive Director