

Decision 88-06 018 JUN 8 1988

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Ernie Schoettmer )  
and Jean Schoettmer, sellers, to )  
sell, and Lance L. Johnson and )  
Sally Johnson to buy all 9,000 )  
shares of outstanding common )  
stock of Arrowhead Manor Water )  
Company. )

**ORIGINAL**

Application 88-02-002  
(Filed February 1, 1988)

OPINION

Ernie Schoettmer and Jean Schoettmer (transferors) and Lance L. Johnson and Sally Johnson (transferees) jointly seek Commission authorization for the transfer of all of the outstanding common shares of Arrowhead Manor Water Company (Arrowhead Manor) from transferors to transferees, pursuant to Public Utilities (PU) Code Sections 851 through 854.

The application appeared on the Commission's Daily Calendar of February 4, 1988. Applicants jointly notified Arrowhead Manor's customers of this application. No protests have been received; therefore, a public hearing is not necessary.

Arrowhead Manor is situated near the community of Cedar Glen. As of December 31, 1986, Arrowhead Manor had 214 active metered service connections and 380 active flat rate service connections, or a total of 594 active service connections. Arrowhead Manor has no customer deposits or main extension contracts.

Net utility rate base<sup>1</sup> as of December 31, 1986 is \$133,899. Although the original cost less accumulated depreciation

<sup>1</sup> Rate base is the investment on which a utility is entitled to earn a fair rate of return.

of Arrowhead Manor is stated at \$917,976, \$784,077 is nonrate base Department of Water Resources Safe Drinking Water Bond Act financed property. The application represents that transferees are aware of the present rates and rate base and will not seek changes in present rates and rate base before Arrowhead Manor's next general rate proceeding.

The application states that the selling price is \$100,000. However, the terms of the sales agreement provide for transferees to pay \$68,544 for all of the outstanding shares of Arrowhead Manor, Exhibit A to the application. Transferees paid transferors \$10,000 upon execution of the sales agreement, and have agreed to pay \$30,000 at the time of closing of the sale, and to execute a \$28,544 promissory note with an interest rate of eleven percent (11%), secured with the outstanding common shares of Arrowhead Manor, payable in monthly installments of at least \$448.35.

The difference between the \$100,000 selling price and the \$68,644 due to transferors for all of Arrowhead Manor's issued and outstanding stock is \$31,456. This difference represents two demand notes previously issued by Arrowhead Manor to transferors, dated September 30, 1987. Because the sales agreement provides for scheduled monthly payments of \$494.16 these notes, not expected to be paid in full for at least five years, should be classified as long-term debt.

By letter of April 6, 1988, applicants clarified that the demand notes are long-term debt and should be classified as such on Arrowhead Manor's accounting records. Accordingly, applicants request Commission authority to enter into a long-term debt arrangement, pursuant to Section 817.

Since this application is not protested, applicants' requests to convert the demand notes to long-term debt should be approved. However, these notes should be redrawn to state the payment terms identified in the sales agreement and to delete the

clause "payable upon demand." Also, the fee schedule identified in PU Code Section 1904 is applicable to these long-term notes.

The \$28,544 promissory note previously discussed is a personal note and, as such, is not subject to PU Code Section 1904.

Mr. Johnson, currently a water consultant, has over thirty years experience with various companies owned by California Water. Ms. Johnson has experience in the financial community. Transferees are qualified to control and operate Arrowhead Manor.

Transferees' combined net worth of approximately \$110,000 in 1987 is sufficient to purchase and operate Arrowhead Manor, as shown in Exhibit G to the sales agreement.

The sales agreement discloses that the County of San Bernardino has a claim against Arrowhead Manor for franchise fees. This claim totals \$11,309 as of September 25, 1986. Transferors dispute the County of San Bernardino's claim. However, transferors represent that, should the claim be proven valid, transferees may use the franchise fees owed as a basis for a water rate increase. Further, transferors represent that if a rate adjustment is not allowed Arrowhead Manor for the franchise fees, transferees may apply any portion of the franchise fees which accrued up to the closing date against the \$28,544 note.

The Commission Advisory and Compliance Division (CACD) conducted an independent analysis of this application; a copy of this written analysis has been placed in the formal file to this application. Based on CACD's analysis, CACD recommends approval of the application.

By this decision, transferees are notified that rates are set with projected future costs, not past costs. Although franchise fees may be considered in setting rates, such fees applicable to prior periods are not recoverable through rate offsets or future rate proceedings.

The proposed rates and charges are to be the same rates and charges presently on file with the Commission.

Findings of Fact

1. Transferors and transferees jointly seek authority to transfer all of the outstanding common shares of Arrowhead Manor from transferors to transferees.
2. Applicants jointly notified Arrowhead Manor's customers.
3. No protests to the application have been received.
4. Arrowhead Manor has no customer deposits or main extension contracts.
5. Utility plant-in-service includes \$784,077 of Department of Water Resources Safe Drinking Water Bond Act financed property which is not a component of rate base.
6. Transferees are aware of the present rates and rate base and represent that they will not seek changes in present rates and rate base before Arrowhead Manor's next general rate proceeding.
7. The sales price is \$100,000.
8. Transferees are paying \$68,544 for the outstanding common shares of Arrowhead Manor.
9. Transferees are to execute a \$28,544 promissory note with an interest rate of 11% payable to transferors in monthly installments of at least \$448.35.
9. Transferees, as Arrowhead Manor, are assuming two demand notes totaling \$31,456.
10. Applicants clarified that the two demand notes are long-term debt and that the notes should be classified as such on Arrowhead Manor's accounting records.
11. Applicants request authority to record the notes as long-term debt.
12. Long-term notes are subject to PU Code Section 1904.
13. Transferees are qualified to control and operate Arrowhead Manor.
14. Transferees have sufficient net worth to purchase and operate Arrowhead Manor.

15. The Commission sets rates on projected future costs, not past costs.

16. Although franchise fees are considered in setting rates, such fees applicable to prior periods are not recoverable through rate offsets or future rate proceedings.

17. The transfer of stock and control of Arrowhead Manor from transferors to transferees is not adverse to the public interest.

Conclusions of Law

1. A public hearing is not necessary.

2. The transfer and control of all of Arrowhead Manor's common stock from transferors to transferees should be authorized.

3. Arrowhead Manor's demand notes should be converted to long-term debt.

4. The \$28,544 promissory note is a personal note not subject to PU Code Section 1904.

ORDER

IT IS ORDERED that:

1. Ernie Schoettmer and Jean Schoettmer (transferors) are authorized to transfer all of Arrowhead Manor Water Company's (Arrowhead Manor) outstanding common shares to Lance L. Johnson and Sally Johnson.

2. Arrowhead Manor's two demand notes totaling \$31,546 shall be classified as long-term debt. These notes shall be redrawn consistent with the terms identified in the sales agreement, Exhibit A to the application. The term "payable upon demand" shall be deleted for both notes.

3. The authority granted by this order to issue an evidence of indebtedness will become effective when transferee pays \$64.00, set by PU Code Section 1904(b), to the Commission's Fiscal Office of the Management Services Division.

4. Within 10 days after the completion of the transfer, transferors shall notify the Commission's Advisory and Compliance Division Director, in writing, of the date of the transfer and of the date upon which transferees shall have assumed operation of Arrowhead Manor. A true copy of the instruments of transfer shall be attached to the notification.

5. Transferees shall keep Arrowhead Manor's book and records in accordance with the Uniform System of Accounts for Water Utilities prescribed by this Commission.

6. Transferees shall file an annual report, in compliance with General Order 104-A, on a calendar year basis.

7. Transferees shall assume transferors' responsibility for paying Arrowhead Manor's 1988 user fee under PU Code Sections 401 et seq.

8. Transferors and transferees shall take the necessary steps required by the Department of Water Resources for transferees to assume the Safe Drinking Water Bond Act loan obligations. Transferors and transferees shall jointly provide a true copy of the contract assumption to the Commission's Advisory and Compliance Division Director upon execution.

9. Before the transfer occurs, transferees shall deliver to transferees, and transferees shall keep, all records of the construction and operation of Arrowhead Manor.

10. When the authorized transfer is complete and the conditions of this order are fulfilled, Ernie Schoettmer and Jean Schoettmer shall be relieved of their public utility obligations for the transferred system.

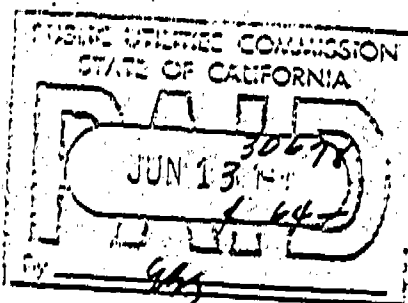
11. The authority granted in this application is not a finding of the value of the rights and properties to be transferred.

12. Arrowhead Manor will use its existing Corporate Identification No. U-347-W in connection with the certificate of authority issued in this proceeding. The number shall appear in the caption of all original pleadings and in the title of pleadings filed in existing cases with this Commission.

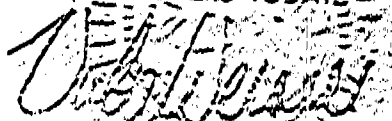
13. This application is granted as set forth above.  
This order is effective today.

Dated June 8, 1988, at Carson, California.

STANLEY W. HULETT  
President  
DONALD VIAL  
FREDERICK R. DUDA  
G. MITCHELL WILK  
JOHN B. OHANIAN  
Commissioners



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

  
Victor Weisser, Executive Director

12. Arrowhead Manor will use its existing Corporate Identification No. U-347-W in connection with the certificate or authority issued in this proceeding. The number shall appear in the caption of all original pleadings and in the title of pleadings filed in existing cases with this Commission.

13. This application is granted as set forth above.  
This order is effective today.

Dated JUN 8 1988, at San Francisco, California.

STANLEY W. HULETT  
President  
DONALD VIAL  
FREDERICK R. DUDA  
G. MITCHELL WILK  
JOHN B. O'BANIAN  
Commissioners

