

Decision 89 04 045 APR 12 1989**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
Water West Corporation (U 217 W), a)
corporation, and California-American)
Water Company (U 210 W), a)
corporation, for an order)
authorizing (1) the sale and)
transfer to California-American)
Water Company of the Rancho Del)
Monte (2) the discontinuance of)
service by Water West Corporation)
in the territory now served by it,)
and (3) the commencement of service)
in said territory by California-)
American Water Company at the rates)
then effective in the Monterey)
District of California-American)
Water Company.)

Application 88-11-043
(Filed November 22, 1988)

OPINION

This is an application in which Water West Corporation (Water West) seeks authority to sell and transfer its Rancho Del Monte water system (water system) to California-American Water Company (Cal-Am).

Notice of the filing of the application was mailed to each water system customer on December 8, 1988. No protests were received.

Cal-Am proposes to merge water system into its operations by integrating it with its Monterey District for operational purposes including accounting and billing. The proposal encompasses applying Cal-Am's Monterey District's rates, which are higher than those of water system, to water system.

The Commission's Water Utility Branch (Water Branch) indicated that it had reservations about the portion of the application requesting authority to apply Cal-Am's higher rates to the system being acquired.

On March 2, 1989, Cal-Am sent a letter to the assigned Administrative Law Judge (ALJ) in which it asked that the transfer be allowed without a rate increase. The letter also indicated specific proposed betterments to water system and requested that as these additions to plant were made rates could be increased by advice letter filings until they reached the level of those charged in Cal-Am's Monterey District. Cal-Am's Letter is designated as Exhibit 1.

On March 6, 1989, Water Branch set a communication to the assigned ALJ indicating it agreed with Cal-Am's proposal. Water Branch stated that one reason for its agreement is that:

"The Monterey District is now under a strict rationing plan imposed by the Monterey Peninsula Water Management District, the Commission having approved an implementation plan for Cal-Am by Resolution W-3431 on February 24, 1989. We understand that unused water allocations from Rancho Del Monte will be available to Monterey District when the sale is completed. As those allocations would be very helpful to the customers of Monterey District during the coming periods of shortage this summer, there is a need to complete the transfer expeditiously." (Water Branch's letter is designated as Exhibit 2.)

No other points require discussion. The Commission makes the following findings and conclusions.

Findings of Fact

1. A public hearing is not necessary in this matter.
2. Water West is a California corporation which owns and operates a water corporation as defined in Public Utilities (PU) Code § 241. It supplies and distributes water for domestic purposes to approximately 3,200 customers in four separate divisions (Bolsa Knolls, Las Lomas, Oak Hills and Rancho Del Monte) in incorporated and unincorporated areas in Monterey County. Water system provides service to approximately 423 customers. Its water supply is obtained from four wells. The distribution system

consists of approximately 59,400 feet of pipe ranging from one inch to eight inches and six storage tanks totaling 275,000 gallons.

3. Water West was recently acquired by California Water Service Company (Cal Water) pursuant to Decision (D.) 88-05-010 dated May 11, 1988, in Application 87-12-014. Cal Water is operating Water West's four divisions from its Salinas District office which is some distance from water system which is located in the Carmel Valley. Cal-Am's Monterey District system surrounds water system and has a physical connection to it.

4. Cal-Am is a California Corporation which owns and operates a water corporation as defined in PU Code § 241. Cal-Am was incorporated on December 7, 1965, for the purpose of acquiring all of the water properties of the California Water and Telephone Company D.70418, dated March 8, 1966, and June 8, 1966. The acquisition was accepted on April 1, 1966. On December 31, 1969, the Village Water Company in Ventura County and the Pollock Water Service, Inc., in Monterey County were merged with and into Cal-Am, the latter being the surviving corporation (D.76601 and D.77247, dated December 23, 1969, and May 22, 1970).

5. Cal-Am supplies and distributes water for domestic and industrial purposes in several localities in the State of California, including the Cities of Monterey and Carmel and unincorporated portions of Monterey County.

6. On November 17, 1988, the parties entered into an agreement in which Cal-Am agreed to buy water system for \$262,000, adjusted for any betterments from July 1, 1988.

7. The annual report for the year ending December 31, 1987 filed by Water West with the Commission shows the following amounts with respect to water system:

Utility Plant in Service	\$477,300
Construction Work In Progress	3,455
Materials and Supplies	<u>2,366</u>
Total Utility Plant	483,121
Depreciation Reserve	<u>200,777</u>
Net Utility Plant	282,344
Advances for Construction	18,277
Contributions in Aid of Construction	<u>82,291</u>
Rate Base	181,776

8. Cal-Am had assets of \$88,957,765 as of December 31, 1987. It had operating revenues of \$38,858,749 for the 12 months ending on December 31, 1987.

9. Cal-Am has the ability including financial ability to acquire water system and continue its operations.

10. The proposed sale and transfer of water system from Water West to Cal-Am is not adverse to the public interest.

11. It is not reasonable to permit Cal-Am to apply its Monterey District rates to water system upon transfer.

12. Water system has had an excessive unaccounted for water loss which is currently running at 16.5% of total production per year. Certain capital expenditures are necessary in 1989 and 1990 in order to reduce unaccounted for losses to 10% by 1990 and 8% by 1991 as required by the Monterey Peninsula Water Management District. Cal-Am proposes to make these expenditures in two Phases: Phase 1 (1989) and Phase 2 (1990). Phase 1 consists of constructing pipelines to eliminate two leaking 25,000 gallon redwood tanks, eliminate a pipeline that runs under a home and one of four very old pipelines which runs through a canyon. The estimated cost of Phase 1 is \$156,000. Phase 2 would eliminate additional old pipelines in two other canyons putting them into separate zones, and would provide pressure regulation. The estimated cost is \$145,000 for Phase 2.

It is reasonable to allow Cal-Am to offset these proposed increases to rate base by making advice letter filings upon the completion of the proposed additions to plant. The rates proposed in the advice letter filings should not exceed the rates in effect for Cal-Am's Monterey District at the time of the filing.

13. The agreement between Water West and Cal-Am provides for Cal-Am's assuming liability for refunds on outstanding main extension agreements. It is silent on existing customer deposits. It is reasonable to require Cal-Am to assume liability for refunds on main extension agreements and customer deposits.

14. 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.
2. As a condition of granting the application Cal-Am should be required to assume liability for refunding existing main extension agreements and customer deposits.
3. Cal-Am should be allowed to offset proposed increases to rate base by advice letter filings, provided the rates proposed in these filings do not exceed the rates in effect for Cal-Am's Monterey District at the time of the filing.

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, Water West Corporation (Water West) may sell and transfer its Rancho Del Monte water system (water system) to California-American Water Company (Cal-Am) in accordance with the terms set forth in the application.

2. As a condition of this grant of authority, Cal-Am shall assume the public utility obligations of Water West, shall assume liability for refunds of all existing customer deposits and main extension agreements existing on the date of transfer and shall notify the affected customers.

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

4. Cal-Am shall either file a statement adopting Water West's tariffs or refile those tariffs under its own name as proposed in General Order Series 96. Rates shall not be increased unless authorized by this Commission.

After the additions to plant set forth in Finding of Fact 12 are made, Cal-Am is authorized to file by advice letter proposed rate increases to offset the increases made to rate base; provided, however, that the rates proposed in the advice letter filings shall not exceed the rates in effect for Cal-Am's Monterey District at the time of the filing.

6. Before the transfer occurs, Water West shall deliver to Cal-Am, and Cal-Am shall keep, all records of the construction and operation of water system.

7. Within 90 days after actual transfer, Cal-Am shall file, in proper form, annual report on Water West's operations of water system from the first day of the current year through date of transfer.

8. When this order has been complied with, Water West shall have no further obligations in connection with the water system which was transferred.

9. Cal-Am shall use its existing corporate identification number U-210-W in connection with the property acquired 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.

10. The authority granted by this order shall expire on July 31, 1990, if it has not been exercised by that date.

This order is effective today.

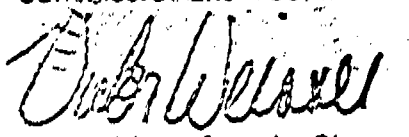
Dated APR 12 1989, at San Francisco, California.

G. MITCHELL WILK
President
STANLEY W. HULETT
JOHN B. OHANIAN
Commissioners

Commissioner Frederick R. Duda
being necessarily absent, did
not participate.

Commissioner Patricia M. Eckert
present but not participating.

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


Victor Weiss, Executive Director