

Decision 90 05 071 MAY 22 1990

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Joint Application of Tahoe Park  
Water Co., Skyland Water Co.,  
and Nielsen Mutual Water System  
to transfer ownership of Skyland  
and Nielsen to Tahoe Park.**

Application 89-08-034  
(Filed August 8, 1989)

## O P I N I O N

This is an application in which Tahoe Park Water Company, Inc. (Tahoe Park) seeks authority to acquire Nielsen Water System (Nielsen) and Skyland Water Company (Skyland).

Notice of the filing of the application was mailed to each Nielsen and Skyland customer on October 24, 1989. There were no protests. Because the proposed transaction will have a substantial rate impact on the customers of Tahoe Park, Nielsen, and Skyland, the Commission Advisory and Compliance Division Water Utilities Branch (Water Branch) requested that the matter be held in abeyance so it could prepare a report and meet with the affected customers. The report was prepared in February 1990 and served on the parties. It is designated Exhibit 1. Thereafter, Water Branch engineers conducted a public meeting on the report in Tahoe City on March 1, 1990, with customers of Tahoe Park, Nielsen, and Skyland in attendance. On March 9, 1990, the Water Branch submitted a memorandum of the March 1 meeting, which is designated Exhibit 2. The memorandum states in part that:

"Customers of each system were present to ask questions and make their opinions known about the acquisition, the intertie, and rates. Their response was uniformly positive in approving the purchase of their systems by Tahoe Park, approving the intertie, expressing confidence in Tahoe Park's management to operate their systems safely and effectively, and acknowledging their responsibility to

provide the revenues necessary to provide a return on the utility's investment."

The matter is now 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. Tahoe Park is a water corporation as defined in Public Utilities Code § 241 and subject to the jurisdiction of the Commission. It serves approximately 400 flat rate customers in a resort area one mile south of Tahoe City along State Highway 89. David Robertson owns all of the outstanding stock and is the operator of Tahoe Park.
3. Nielsen is an unregulated water company. It serves seven customers in the Nielsen subdivision off State Highway 89 immediately north of Skyland. It obtains water from a well, which feeds a pressure tank and a distribution system consisting of two-inch and under steel mains. The system was originally installed in 1955 by Stein Nielsen, a resident real estate developer, who formed a mutual water company in order to sell building lots. The mutual was disbanded in December of 1960 and operated as a private water company by Stein Nielsen until his death in the late 1970s. Since that time several homeowners have operated the water system and collected rates for water service. After Stein Nielsen's death his property was sold by Placer County as the public guardian of Nielsen's wife, Cecelia Winona Nielsen, pursuant to Placer County Case No. 17237, a conservatorship, to pay her hospital bills. Craig Dodge, a current resident, bought Stein Nielsen's estate with the belief that the water company was part of it. Dodge had a probate search done prior to his purchase, which revealed no competing title claims. However, Dodge was never issued title to the water company. He claims that the attorney handling the estate sale informed him the cost of pursuing title to the water company would be quite expensive so he never sought it. The Placer County

Recorder lists Stein Nielsen and the Nielsen Water Company as the owners of Parcel No. 85-050-14, the land on which the water facilities are located. Property tax records show that Dodge has paid the property taxes on this parcel since his acquisition of the estate, though the property tax bills are sent to "Nielsen Water Company".

4. Skyland is a mutual water company. It serves approximately 69 customers in the Skyland subdivision along Elizabeth Drive, off State Highway 89 about two miles south of Tahoe City, in Placer County. Its facilities consist of an intake pipe in Lake Tahoe, a pumping station on the lakeshore (elevation approximately 6,230 feet), a booster pumping station approximately 100 feet higher in elevation on Elizabeth Drive, a 20,000-gallon redwood storage tank at about 6,530-foot elevation above the upper end of Elizabeth Drive, and a distribution system constructed of four-inch-and-under steel mains. This system was originally installed in 1959 by a real estate developer resident in the subdivision who established the mutual water company.

5. Tahoe Park proposes to acquire Nielsen and Skyland and construct an intertie between those systems and its system which would result in one functional entity.

6. The agreement between Tahoe Park and Skyland calls for a purchase price between \$10,000 and \$15,000 depending on the Commission's determination of rate base. In the event rate base is less than \$10,000, Skyland has the option of canceling the sale. Skyland also agrees that the costs of four specific items shall be deducted from the final sales price, with the provision that the final sales price shall not be less than \$1. These items include restoring an abandoned well site, if possible; installing two fire hydrants; increasing pumping capacity to meet a fire flow requirement of 200 gpm for 2 hours; and installing a meter on the lake intake. Tahoe Park agrees to continue charging an annual rate of \$200 until such time as the Commission sets a different rate.

7. The agreement between Tahoe Park and Nielsen establishes a purchase price of \$1 and annual rates of \$200 per customer service subject to future action by the Commission. This contract obligates Tahoe Park to pay for the interconnection of the two systems, with the understanding that any plant investments will be considered as rate base in future proceedings before the Commission. This agreement was signed by each of the seven homeowners in the Nielsen tract, including Craig Dodge, as the "Nielsen Subdivision Homeowners".

8. Both Skyland and Nielsen currently charge an annual rate of \$200 for residential service. Tahoe Park believes the current rates are reasonable and has agreed to maintain them until such time as the Commission sets new rates. Water Branch agrees that the current rates are reasonable and do not result in a rate of return in excess of that currently allowed by the Commission for small water utilities.

9. Tahoe Park proposes to install a six-inch main linking Nielsen with Skyland and to improve the Nielsen well in order to serve Skyland customers. The resulting system would then have two sources of supply and the Nielsen customers would benefit by the resulting improvement in service pressures and fire flows. The total estimated cost of the project ranges from \$69,000 to \$100,000. The intertie is crucial to the success of the acquisition. The combination of two small systems into a larger system should result in economies of scale and lessen the rate impact of future rate base additions, some of which may be substantial. At an expected rate of return of 11%, a depreciation expense of 2.5%, and the appropriate gross-up for income taxes, a plant investment of \$70,000 would result in approximately \$11,740 per year in rates. For 76 customers this amounts to an annual rate of \$154.50 without considering any other operational expenses. Assuming the current rates are justified, future rates may climb to

close to \$350 per year when this project is eventually included in rate base.

10. The Nielsen and Skyland systems are old and nearing the end of their useful lives. Stricter water quality standards will eventually require that every user of water from Lake Tahoe install filtration and treatment facilities, which will be expensive both to build and to operate. If the Nielsen well is adequately developed to serve both subdivisions the need for an expensive treatment plant will be avoided. While the future rate impact of the intertie would be substantial, in the light of all the circumstances there was support for the proposed transaction from customers of Tahoe Park, Nielsen, and Skyland at the meeting on March 1, 1990.

11. Water Branch prepared an estimate which indicates that the Skyland system has a current book value of \$6,155, depreciated from an original cost of \$26,550. This figure is taken from Skyland's federal income tax return from 1987. Depreciation reserve was accumulated at 2.5% per year, based on a 40-year life. Water Branch estimates Skyland plant investment as follows:

Mains	\$17,520
Redwood tank	3,720
Pumps	2,920
Buildings	530
Services	<u>1,860</u>
Total	\$26,550
Depreciation Reserve	20,395
Rate Base	6,155

It is reasonable to adopt this estimate for the purposes of this proceeding, and if the transaction is consummated, require Tahoe Park to record these figures in the Annual Reports it files for this service area.

12. Water Branch prepared an estimate which indicates that the Nielsen system had an estimated original cost of \$4,455. Since

there are no records to indicate the actual price paid, Water Branch's estimate is based on an evaluation of the system done by the Tahoe City Public Utilities District (PUD). Subtracting accumulated depreciation at 2.5% per year results in a current book value of \$710. Water Branch estimates Nielsen plant investment as follows:

Land	\$ 200
Mains	1,925
Well	600
Pump	730
Tank	440
Building	<u>560</u>
Total	\$4,455
Depreciation Reserve	3,745
Rate Base	710

It is reasonable to adopt this estimate for the purposes of this proceeding, and if transaction is consummated require Tahoe Park to record these figures in the Annual Reports it files for this service area.

13. Tahoe Park submitted a balance sheet which indicated that as of June 30, 1989, it had total assets of \$821,787. The balance sheet also indicates that it had gross revenues of \$40,889 for the six months ending June 30, 1989.

14. Robertson has demonstrated his capacity as a diligent and conscientious operator in the operating of Tahoe Park. He has also operated the Nielsen and Skyland systems for some time and gained the confidence of the homeowners in these service areas. Robertson has indicated that future upgrades will comply with the Commission's General Order 103.

15. Tahoe Park has the ability, including financial ability, to acquire Nielsen and Skyland and continue their operations.

16. Prior to the transactions under consideration here, Nielsen and Skyland examined and rejected a sale to the PUD as

creating an excessive financial burden. The PUD plans also called for an intertie, but due to the construction standards of the County, construction costs were estimated to be far higher than the customers were willing to pay.

17. The proposed acquisition of Nielsen and Skyland by Tahoe Park is not adverse to the public interest.

18. Because the public interest would best be served by having the sale and transfer take place quickly, this order should be effective today.

Conclusions of Law

1. The application should be granted.

2. Tahoe Park should be required to adopt the rate base estimates set forth in Findings of Fact 11 and 12.

3. Tahoe Park should be authorized to file separate tariffs for the Nielsen and Skyland service areas continuing the current charge of \$200 per customer per year until further order of the Commission.

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

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order Nielsen Water System (Nielsen) and Skyland Water Company (Skyland) may transfer their water systems to Tahoe Park Water Company, Inc. (Tahoe Park) in accordance with the terms set forth in the application.

2. Within 10 days after transfer Tahoe Park shall write the Commission stating the date of transfer.

3. Tahoe Park shall adopt the rate bases set forth in Findings of Fact 11 and 12 for future ratemaking purposes.

4. Tahoe Park is authorized to file separate tariffs for the Nielsen and Skyland service areas continuing the current charge of \$200 per customer per year until further order of the Commission.

5. Nielsen and Skyland shall deliver to Tahoe Park all records of the construction and operation of their water systems.

6. When this order has been complied with, Nielsen and Skyland shall have no further obligations in connection with their water systems.

7. The authority granted by this order shall expire on June 28, 1991, if it has not been exercised by that date.

This order is effective today.

Dated MAY 22 1990, at San Francisco, California.

G. MITCHELL WILK

President

STANLEY W. HULETT

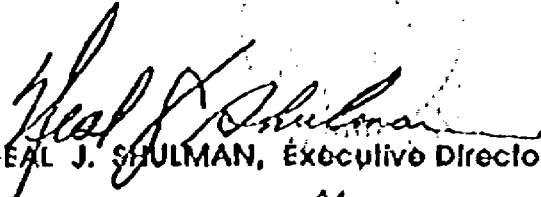
JOHN B. OHANIAN

PATRICIA M. ECKERT

Commissioners

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

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

  
NEAL J. SHULMAN, Executive Director