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Decision 90 08 036 AUG 8 1990

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
Oakridge Water Company to sell and)
San Jose Water Company to buy the)
water system in Santa Clara County.)

Application 90-03-041
(Filed March 28, 1990)

O P I N I O N

In this joint application, San Jose Water Company (SJW) (U-168-W) requests authority to purchase and Oakridge Water Company (Oakridge) (U-165-W) requests authority to sell the Oakridge system which serves a portion of the city of San Jose. This service area is contiguous to SJW service area. Both applicants are California corporations and public utilities. SJW proposes to serve Oakridge's service territory charging SJW's presently effective rates which are slightly higher than those of Oakridge. Oakridge asks to be relieved of all public utility obligations at the time of the transfer of ownership.

Notice of this application appeared on the Commission's Daily Calendar on March 30, 1990. In addition, on May 17, 1990, Oakridge mailed to each customer notice of this application. No customer protests have been received.

Applicants propose to enter into a written agreement to consummate the sale of water system. (Exhibit C.) Under this agreement, SJW will acquire the water system and all related real and personal property and operating facilities. SJW will not purchase Oakridge's accounts receivable, choses in action, cash on hand and in the bank, unbilled revenues or refundable deposits made by Oakridge customers. On or before consummation of the sale, Oakridge will refund all customer deposits. SJW will assume no

liabilities of Oakridge in connection with the sale.¹ There are no presently effective main extension agreements. The purchase agreement has been approved by applicants' respective board of directors. Applicants attached to the application a proposed Deed and Bill of Sale. (Exhibit D.) The purchase price of the system is \$2,500.

Oakridge was built in 1963 and is presently connected to SJW's system. Oakridge purchases its water wholesale from SJW and resells it at a Commission authorized rate. Oakridge serves 92 residential customers.

In applicants' opinion, Oakridge does not have sufficient capital to fund ongoing customer service expense and capital replacement costs. Oakridge's 1989 balance sheet shows total assets and liabilities of \$48,191.16 with an earned deficit of -\$83,589.32. Oakridge's operating income reported in December, 1989 is -\$4,625.84 before taxes and -\$7,708.61 after taxes and depreciation. On the other hand, SJW's unaudited 1989 balance sheet shows capital surplus and retained earnings of over \$60 million. Therefore, applicants believe Oakridge customers will benefit from the stability and dependability offered by the proposed acquisition.

SJW requests to increase Oakridge rates to those of SJW upon acquisition. Oakridge's present rates for general metered service, effective April 1, 1978, are:

Quantity Rates:

First 300 cu.ft. per 100 cu.ft.....\$0.83 per meter/mo.
Over 300 cu.ft. per 100 cu.ft..... .94 per meter/mo.

¹ In a letter to the Assigned ALJ on July 20, 1990, SJW indicates that the existing debt owed to the parent company will be declared uncollectible by the debt holder prior to the transfer of ownership.

Service charge:

For 5/8 x 3/4 inch meter.....	\$4.00
For 3/4 inch meter.....	4.40
For 1 inch meter.....	6.00
For 1-1/2 inch meter.....	8.00
For 2 inch meter.....	10.80

SJW's present rates, effective October 17, 1989, are:

Quantity Rates:

Per 100 cu.ft.....\$0.947

Service Charge:

For 5/8 x 3/4 inch meter.....	\$ 4.35
For 3/4 inch meter.....	4.35
For 1 inch meter.....	7.30
For 1-1/2 inch meter.....	10.00
For 2 inch meter.....	12.50
For 3 inch meter.....	25.00
For 4 inch meter.....	34.00
For 6 inch meter.....	53.00
For 8 inch meter.....	81.00
For 10 inch meter.....	108.00

The application of SJW rates to Oakridge customers results in an increase in the service charge of 35 cents and an adjustment in the quantity charge of less than 12 cents per ccf for the first 3 ccf. This increase applies to 91 of the 92 customers. The 92nd customer has a 1-inch meter resulting in a \$1.30 per month increase in the service charge.

SJW also proposes to substitute its tariff rules and standard forms for those of Oakridge upon acquisition.

The undepreciated book cost of the Oakridge System properties was \$95,829 as of December 31, 1989. Applicant calculates accumulated depreciation as \$53,806.36. These amounts are not disputed.

Applicants request ex parte, expeditious approval of this application because it is noncontroversial and Oakridge is continuously operating at a loss. Branch does not object to the granting of this request.

Discussion

SJW is capable of managing and operating Oakridge based upon its experience in the water industry and present financial stability.

SJW requests to apply its tariff rates to Oakridge. This results in small increases in the service charge and quantity rates and the elimination of a two-tier quantity charge. This elimination is consistent with Commission policy. Because the increases are small, no objections have been received and Oakridge is losing money, we will grant the request to apply SJW's tariff, rules and regulations to Oakridge at the time of the transfer of ownership.

Applicants request expeditious approval of its application to minimize current revenue losses and relieve Oakridge from its service and financial obligations which it finds burdensome. We find this request to be reasonable.

Accordingly, we will grant the application. However, applicants offer no calculation of rate base or a return thereon, or any proposed accounting entry to record this transaction. In the recent case of Alisal Water Corporation's (Alisal) purchase of the Moss Landing Harbor District (Moss Landing) water system (D.90-07-057), the Commission established policies for the determination of rate base. In that case, Alisal's purchase price for the water system was also less than the amount of net utility plant in service. In determining what is includable in rate base, the Commission stated that it did not believe that utility purchasers should earn a return on someone else's investment absent extreme circumstances. Accordingly, the Commission adopted the purchase price as the amount includable in rate base for ratemaking purposes. We will set the rate base in this case following the policy established in that decision. The Commission's prescribed Uniform System of Accounts (USOA) for Water Companies provides guidelines for the accounting for acquisition adjustments

necessitated by purchase prices that are either higher or lower than the net book value of the water system being purchased. The accounting instruction for Account 100-5 Utility Plant Acquisition Adjustments states that this account shall be used to record the difference between (a) the cost of utility plant acquired and (b) the amount of net utility plant in service. Therefore, SJW will record its purchase of the Oakridge water system as of December 31, 1989 as follows:

<u>Item</u>	<u>Amount</u>
Water Plant in Service	\$95,829
less:	
Accumulated Depreciation	53,806
Utility Plant Acquisition Adjustment	
	<u>39,523</u>
Net Plant (Rate Base) @12-31-89	\$ 2,500 =====

We defer the issue of rate of return on rate base until SJW's next general rate proceeding.

Findings of Fact

1. Oakridge requests authority to sell and SJW requests authority to buy the Oakridge system which serves a portion of San Jose. Both applicants are California corporations and public utilities. SJW request authority to establish its presently effective tariff rules and rates in Oakridge upon approval of its application. Oakridge lacks the necessary capital to continue to provide service and requests to be relieved of all public utility obligation.

2. Oakridge customers were duly notified of the application and no comments have been received. No other party protests this application.

3. The Commission Water Branch supports this application.

4. Applicants do not calculate or request the establishment of a proposed rate base or return on rate base. However, applicants calculate the original cost of plant to be \$95,829, with accumulated depreciation of \$53,806.36 as of December 31, 1989.

5. SJW paid \$2,500 for the Oakridge water system.

6. The difference between the original cost of plant, and the accumulated depreciation and purchase price represents Utility Plant Acquisition Adjustment of \$39,523 (\$95,829 - (\$53,806 + \$2,500)).

7. The proposed rates are reasonable.

8. The proposed transfer is not adverse to the public interest.

9. A public hearing is not necessary.

Conclusion of Law

The application should be granted. The issue of return on rate base should be deferred until SJW's next general rate proceeding.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Oakridge Water Company (Oakridge, seller) may transfer the water system and other assets designated in this application to San Jose Water Company (SJW, buyer) under a sales agreement substantially conforming to Exhibit C in A.90-03-041.

2. As a condition of this grant of authority, buyer shall assume the public utility obligations of seller and shall notify the affected customers of this transfer in ownership.

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. As a condition of this grant of authority, buyer shall apply its presently effective rates, rules and conditions to customers in Oakridge.

5. On or after the effective date of this order buyer shall:

- a. Within 30 days, record the purchase of the Oakridge water system at a December 31, 1989 net book value of \$2,500, as discussed in this decision. The amount of \$39,523, representing the difference between the original cost of plant and the accumulated depreciation and purchase price, shall be recorded in Account 100-5, Utility Plant Acquisition Adjustments.
- b. Within 30 days, file revised rate schedules in compliance with General Order Series 96 to extend San Jose Water Company rates, rules and regulations to Oakridge customers. The revised schedules shall apply only to service rendered on and after their effective date, which shall be 5 days after filing.
- c. Within 45 days, file a revised service area map, appropriate general rules, and sample copies of printed forms used for customer service in compliance with General Order Series 96. The tariffs shall become effective 5 days after filing.
- d. Prepare, keep current, and file with the Commission 2 copies of the system map required by General Order Series 103 within 90 days after the effective date of this order.

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

7. 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.

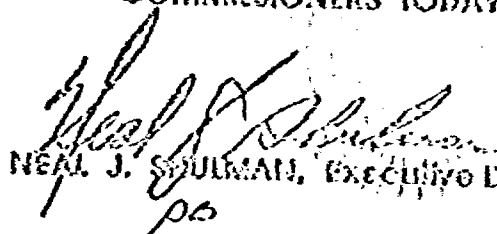
8. Upon compliance with this order, seller shall be relieved of its public utility obligation to the transferred system.

This order is effective today.

Dated AUG 8 1990, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. CHANAN
PATRICIA M. ECKERT
Commissioners

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


NEAL J. SPULMAN, Executive Director