

Decision 91 03 045 MAR 22 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
Ranchero Water Co., Inc., to sell )  
and Hillcrest Water Co., Inc. (U75W) )  
to buy the water system in Sutter )  
County. )

ORIGINAL

Application 90-10-038  
(Filed October 11, 1990)

O P I N I O N

This decision grants the application of Hillcrest Water Company, Inc. (Hillcrest) to purchase and Ranchero Mutual Water Company, Inc. (Ranchero) to sell the Ranchero water distribution system that serves the Ranchero Estates subdivision in Sutter County.

Hillcrest and Ranchero filed the application on October 11, 1990. Hillcrest is a public utility serving approximately 2,200 customers in and around Yuba City, Sutter County.

Ranchero was organized as a mutual water company in 1989 by Ethel and Lee Harmon (Harmons) to serve their 74-parcel development, Ranchero Estates. The application states that one of two wells serving Ranchero Estates was taken out of service because of excess nitrates. With only one operable well, Ranchero was not able to meet fire flow requirements or the requirements of General Order (GO) 103 that require two independent sources of supply.

The Harmons proposed selling the Ranchero system to Hillcrest. Lot owners were polled by mail-in vote in 1990, and they approved the sale.

The application states that the original cost of the Ranchero system was \$203,148, with a depreciation reserve as of October 11, 1990 of \$16,252. Original cost less depreciation is \$186,896. The Harmons have agreed to sell the system, which includes the well, hydropneumatic tank, distribution mains and

easements, for a token price of \$1 because they no longer want to be responsible for operating and maintaining a substandard system. The sale has been approved by the boards of directors of Hillcrest and of Rancho.

The Commission's Water Utilities Branch (staff) investigated the application and issued a report on January 16, 1990. After analyzing the sales agreement, financial and accounting records, and rates and operational reports, staff recommends that the application be granted if the applicant agrees to a rate base set at the purchase price of \$1, instead of a rate base calculated at original cost.

By letter dated January 25, 1991, Hillcrest agreed to staff's recommendations and accepted the report as submitted.

Staff notes that the Rancho distribution system consists of asbestos-cement pipes ranging in size from 6 to 10 inches in diameter. Pressure in the system is maintained by a hydropneumatic tank at 40 to 60 psi, meeting the pressure requirement of GO 103.

The Rancho service area will be included in Hillcrest's Region V, known as the Butte Rancho Area. Rancho is connected to Region V via an existing Hillcrest main. In addition to the existing Rancho well and hydropneumatic tank, the area will be served by Region V wells and hydropneumatic tanks.

Hillcrest will adopt the current rates charged by Rancho. These rates, applicable to service connections not larger than 1 inch in diameter, are:

	<u>Per Service Connection Per Month</u>
For single-family residence including premises not to exceed 13,000 square feet.....	\$13.70
Each addition unit on same premises.	6.62
Each swimming pool.....	2.21
Each 100 square feet of premises in excess of 13,000 square feet.....	.07

Staff reports that Rancho's water service, as provided by Hillcrest, meets all applicable primary and secondary drinking water health standards set by the State Department of Health Services and the Sutter County Health Department. No protests to the application for sale have been received. In the past two years, the Commission has received four complaints concerning Hillcrest, but none concerned this application.

Staff states that the Rancho water system has a book value of \$186,896, depreciated from the original cost of \$203,148. In accordance with Commission policy<sup>1</sup> regarding acquisitions of mutual water systems at prices above book value, staff has calculated an acquisition adjustment of \$186,895 (book value less the \$1 sales price). Staff recommends that, as we did in our decision in California-American Water Company, Decision (D.) 90-12-092 (December 19, 1990), we grant Hillcrest authority to deviate from recording the acquisition at original cost, as is customary under the Uniform System of Accounts.

Staff's recommendation is reasonable, provided that ratepayers will not be liable for additional tax obligations if the Internal Revenue Service does not, for tax purposes, permit booking of the acquisition at the purchase price. Therefore, we will grant the application for the proposed transfer with that protection.

Findings of Fact

1. Hillcrest and Rancho filed this application in which Hillcrest seeks to buy and Rancho seeks to sell the Rancho water system in Sutter County.
2. The Rancho water system has a book value of \$186,896, depreciated from the original cost of \$203,148.
3. Hillcrest has agreed to sell for a token price of \$1 in order to cease maintaining and operating the Hillcrest system.

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<sup>1</sup> See Alisal Water Corporation, Decision (D.) 90-07-057 (July 18, 1990); Oakridge Water Company, D.90-08-036 (August 8, 1990).

4. Staff recommends that the application be granted and that the rate base of the transferred property be set at the purchase price of \$1.

5. The ratepayers of Hillcrest should not be liable if Hillcrest incurs a tax obligation as a result of this acquisition.

6. Hillcrest by letter agreed with staff's recommendations.

7. No protest to the application has been received.

Conclusion of Law

The application of Hillcrest and Rancho should be granted subject to the condition that the book value and rate base of the transferred property be set at \$1 and that the ratepayers of Hillcrest be held harmless for any tax liability incurred.

ORDER

IT IS ORDERED that:

1. The application of Hillcrest Water Company, Inc. (Hillcrest) to buy and Rancho Water Company, Inc. (Rancho) to sell the Rancho water system in Sutter County is granted, subject to the condition that the rate base of the transferred property be set at the sale price of \$1.

2. Hillcrest is authorized to book the acquisition of Rancho's water system at the purchase price of \$1, with the condition that Hillcrest's shareholders shall assume liability for any tax obligation that may arise from this accounting treatment.

3. Within 5 days of the effective date of the completion of the sale, Hillcrest shall submit to the Water Utilities Branch of the Commission Advisory and Compliance Division evidence of the transfer.

4. This grant of authority shall be effective for one year from the effective date of this order.

This order becomes effective 30 days from today.

Dated MAR 22 1991, at San Francisco, California.

PATRICIA M. ECKERT  
President  
G. MITCHELL WILK  
JOHN B. O'HANIAN  
DANIEL WM. FESSLER  
NORMAN D. SHUMWAY  
Commissioners

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

  
NEAL J. SULLIVAN, Executive Director  
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