

Decision 91 07 008 JUL 0 2 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of MONTGOMERY EQUIPMENT CO. )  
31989 River Island Drive )  
Porterville, California 93527 )  
doing business as RIVER ISLAND )  
WATER CO. to sell and transfer )  
the assets of the water system )  
in Tulare County to R.I.R., INC. )

**ORIGINAL**

Application 90-11-008  
(Filed November 6, 1990)

O P I N I O N

This decision grants Montgomery Equipment Company, owner of the River Island Water Company (RIWC), the authority to sell and R.I.R., Inc. the authority to purchase the RIWC.

Notice of the joint application appeared on the Commission's Daily Calendar of November 13, 1990. No protests were received. Notice to customers describing the application for the sale of RIWC to R.I.R., Inc. was mailed to all RIWC customers on November 27, 1990. Again, no protests were received. The Commission's Water Utilities Branch (Branch) submitted its report on April 17, 1991, recommending that A.90-11-008 be approved ex parte. Therefore, a public hearing is not necessary.

Applicant's Request

By this application Montgomery Equipment Company (Seller) doing business as River Island Water Company seeks Commission authority to sell and transfer the assets of the water system to R.I.R., Inc. (Buyer) pursuant to Public Utilities Code §§ 851 through 854. Seller desires to dispose of the RIWC in conjunction with the sale of all contiguous property adjoining the water company's service area. R.I.R., Inc., incorporated on

October 1, 1990, is a new California corporation whose principal place of business is Porterville, California. R.I.R., Inc. was formed for the sole purpose of purchasing, owning and operating the water company. The financial statements of the owners of R.I.R., Inc. are attached to the application. R.I.R., Inc. proposes to retain the current operations, accounting and maintenance staff employed by Seller. R.I.R., Inc. proposes to adopt the presently filed tariffs of the Seller and asserts that it agrees to be bound by any outstanding Commission decisions and/or directives involving the water system being transferred. Both the Seller and R.I.R., Inc. warrant that:

- A. There are no customer deposits.
- B. All refunds due on main extension advances have been paid on a current basis and none are overdue.
- C. On main extension advances which will fall due in the future, R.I.R., Inc. agrees to pay the refunds when due.
- D. The condition of the system is good.

A copy of the proposed purchase agreement is attached to the application as Exhibit A. The selling price is \$100,000 with the terms of payment being cash.

#### System Description

RIWC is a Class D water utility that now serves 74 metered customers in the area adjacent to the River Island Country Club (Country Club), located 4 miles southwest of Springville in Tulare County on State Highway 190. The water system is comprised of two distinct service areas which are separated by undeveloped land. Service area No. 1 consists of the Country Club and the immediate residential area surrounding it. Service area No. 2 is comprised of the residential area along Globe Drive, a street approximately one-half mile east of the Country Club.

The Country Club and Globe Drive service areas each are served by two wells. The four wells are named: West Fairway, Silicon Valley Development (SVD) No.2, SVD No.4, and SVD No. 5. The wells have a combined capacity of 231 gallons per minute.

Each service area maintains separate storage facilities. The West Fairway storage site, serving area No. 1, has four reservoirs with a capacity of 88,000 gallons. The Maintenance Area storage facility, serving area No. 2, has two reservoirs with a capacity of 73,000 gallons. The total combined storage capacity of RIWC is 161,000 gallons.

Water Utilities Branch Report and Recommendations

The Branch concludes that RIWC is currently meeting the water service requirements of its customers. However, the Branch determined that the West Fairway well in service area No. 1 is in poor condition and that RIWC has been allowing surface water from the Tule River to enter its water supply. RIWC should discontinue this practice immediately as the system lacks proper treatment facilities for surface water. In all other respects, RIWC is currently meeting all applicable health requirements. Branch recommends that RIWC continue its current well drilling program to replace the West Fairway well.

The Branch determined that RIWC does not own any real property and that most of its facilities are located on Montgomery Equipment Company property. Branch, therefore, recommends that the Commission condition the authorization for sale upon modification of the sales agreement to include the requirement that Seller grant to R.I.R., Inc. all necessary easements or deeds for water utility facilities located on the lands or property of the Seller.

Branch reviewed RIWC's present tariffs and rate schedules and recommends that RIWC withdraw its flat-rate schedule since all customers have water meters. Branch also

recommends that RIWC file a rate schedule for the private fire protection service it now provides to River Island Country Club free of charge.

Branch has determined that the principal owners of R.I.R., Inc. are real estate developers without previous utility experience. However, R.I.R., Inc. plans to retain the current water utility staff and has a two-year contract with the present RIWC's operations manager. Branch determined that there are plans for a two-phase development that would extend the service area of RIWC eastward to areas consisting of approximately 150 lots and 75 lots respectively. Also, additional planning is underway for extensive development of the area adjacent to RIWC's service area to include 1,681 residential units. A review of the financial viability of the owners of R.I.R., Inc., found that the water company sale is of minor monetary value to them. The Branch concludes that R.I.R., Inc. is financially capable of purchasing RIWC and has made satisfactory arrangements for its continued operation.

Branch reviewed the financial statements of RIWC and determined that the \$100,000 sales price is above the net book cost of the company. R.I.R. Inc. acknowledges in a statement filed on February 1, 1991, that net book cost rather than purchase price will be used for future ratemaking purposes. Branch determined that the undepreciated book cost of the RIWC system is \$144,793, accumulated depreciation is \$50,647 and advances for construction is \$4,057 as of December 31, 1990. Sales price exceeds the net book cost of \$90,089 by \$9,911 as of the end of 1990.

#### Discussion

R.I.R., Inc. is financially capable of purchasing RIWC and has made satisfactory arrangements for its continued operation. The proposed sale of RIWC is at above book value.

The Buyer is aware and acknowledges that the premium to be paid over book value will not be recognized for ratemaking purposes. In order to insure continued service to RIWC's customers, the sales agreement should be modified to require that the Seller grant to R.I.R., Inc. all necessary easements or deeds for water utility facilities located on the lands of the Seller. With the above modification to the sales agreement, the sale of RIWC is not adverse to the public interest and should be granted.

Branch recommendations regarding the West Fairway well and tariff schedules should be adopted. RIWC should discontinue allowing surface water from the Tule River to enter its system and should continue its well drilling program to replace the West Fairway well. RIWC should withdraw its flat-rate tariff schedule and submit for Commission approval a rate schedule for the private fire protection service it now provides free of charge to the River Island Country Club. RIWC should consult with Branch on the appropriate rates and conditions for this service.

#### Findings of Fact

1. Montgomery Equipment Company doing business as RIWC desires to sell RIWC to R.I.R., Inc. in conjunction with the sale of all contiguous property adjoining the water company's service area.
2. R.I.R., Inc. is a California corporation formed for the purpose of purchasing, owning and operating RIWC.
3. All customers were notified of the proposed sale of RIWC to R.I.R., Inc. No customers protested the sale.
4. Buyer will purchase RIWC for \$100,000 in cash.
5. The sales price exceeds net book cost by \$9,911.
6. Buyer acknowledges that the premium to be paid over book value will not be recognized for ratemaking purposes.
7. Buyer proposes to maintain the current operations, accounting and maintenance staff of RIWC.

8. Buyer proposes to adopt the presently filed tariffs of RIWC and to be bound by any outstanding Commission decisions and/or directives involving RIWC.

9. Buyer agrees to pay refunds on main extension advances when due.

10. Surface water from the Tule River is entering the system through the West Fairway well.

11. The water system lacks proper treatment facilities for surface water.

12. RIWC does not own any real property. Most of its facilities are located on Seller's property.

13. All RIWC's customers are metered.

14. RIWC has a flat-rate tariff schedule.

15. RIWC provides private fire protection service to River Island Country Club free of charge.

16. RIWC does not have a private fire protection service tariff schedule.

17. R.I.R., Inc. is financially capable of purchasing RIWC.

#### Conclusions of Law

1. A public hearing is not necessary.

2. The sales agreement should be modified to require that the Seller grant to R.I.R., Inc. all necessary easements or deeds for water utility facilities located on the lands of the Seller.

3. RIWC should withdraw its flat-rate tariff schedule.

4. RIWC should submit a private fire protection service tariff schedule for Commission approval.

5. RIWC should discontinue allowing surface water to enter its system and should replace the West Fairway well.

6. The sale of RIWC to R.I.R., Inc. is not adverse to the public interest and should be granted as set forth in the following order.

7. There is no opposition to the application; this order should be effective on the date of issuance.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Montgomery Equipment Company (Seller), doing business as River Island Water Company (RIWC), is authorized to sell and transfer the assets of the RIWC to R.I.R., Inc. (Buyer) in accordance with the terms set forth in the application as modified by this order.

2. The sales agreement shall be modified to require that the Seller grant to R.I.R., Inc. all necessary easements or deeds for water utility facilities located on the lands or property of the Seller.

3. As a condition of this grant of authority, Buyer shall assume the public utility obligations of Seller, shall assume liability for refunds of all existing main extension advances when due, and shall notify the affected customers of this transfer of ownership.

4. Within 15 days after the acquisition is consummated, Buyer shall file written notice of the acquisition and submit copies of recorded deeds for all necessary easements and/or other water utility plant facilities located on the lands or property of the Seller with the Commission Advisory and Compliance Division.

5. Buyer shall, upon Commission staff request, make all books and records available for review and inspection.

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. By the 31st of March of each year, Buyer shall file, in proper form, an annual report on the utility's prior year's operations.

9. The premium over book value paid by Buyer shall not be recognized for ratemaking purposes.

10. As a condition of this grant of authority Seller shall remit to the Commission all Public Utilities Commission Utilities Reimbursement fees due through the date of transfer.

11. Within 90 days after the transfer, Buyer shall either file a statement adopting Seller's tariffs or refile those tariffs as prescribed in General Order Number 96. Rates shall not be increased unless authorized by this Commission. In addition Buyer shall file an advice letter canceling schedule No. 2R, Residential Flat Rate Service, and shall submit for Commission approval a tariff schedule with rates and special conditions for private fire protection service.



12. Within 30 days after the effective date of this order, RIWC shall discontinue allowing surface water from the Tule River to enter its system and shall inform the director of CACD by letter of the steps it has taken in compliance with this ordering paragraph.

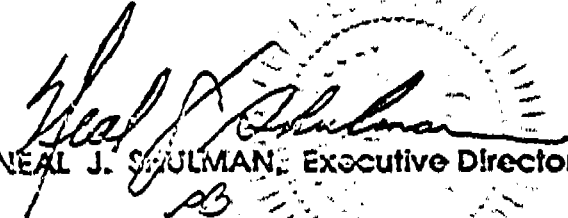
13. Upon compliance with this order, Seller shall be relieved of its public utility obligation to the system being transferred.

This order is effective today.

Dated JUL 02 1991, at San Francisco, California.

PATRICIA M. ECKERT  
President  
G. MITCHELL WILK  
JOHN B. OHANIAN  
DANIEL Wm. FESSLER  
NORMAN D. SHUMWAY  
Commissioners

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

  
NEAL J. SCHULMAN, Executive Director