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APR 8 1992

Decision 92-04-018 April 8, 1992

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Teja Buena Water)
Company and G. Dave Teja, as an)
Individual and as executor of will)
of Bachan S. Teja, 79 WTD, to sell)
all assets of Teja Buena Water)
Company including but not limited)
to customers, pumping plants, water)
transmission, lines, two parcels of)
property and all books, records,)
etc., to Hillcrest Water Company,)
Inc.)

Application 91-08-040
(Filed August 22, 1991)

O P I N I O N

Teja Buena Water Company, Inc.

By Decision (D.) 80070 issued May 1, 1972, Bachan S. Teja, a developer dba Teja Buena Water Company, was granted a certificate of public convenience and necessity (CPCN) to construct and operate a public utility water system in several adjacent subdivisions plus a 10-acre parcel east of the two subdivisions, in the vicinity of Hooper and Tierra Buena Roads in the unincorporated area several miles west of Yuba City in Sutter County. On January 3, 1985, the utility was incorporated in California with Bachan S. Teja holding 100% of the 1,000 shares issued.

The utility's annual report for the year 1990 reveals that at years' end it was providing flat rate water service to 250 active residential customers and to 16 fire hydrants, with 200 inactive services. The utility's two shallow wells on La Mantia Drive on Lot 36 of the initial Teja Buena subdivision had been condemned by the State Department of Health because of high nitrate content. Consequently, all of the system's current water supply is coming from a third well on Lot 35 of the Quail Pointe Estates subdivision, which was added in 1988. The water is distributed from a 10,000 gallon pressure tank to 6961 feet of cement asbestos

mains to individual customer service lines. The system has no water treatment equipment.

Bachan S. Teja died in June 1990. In April of 1990, just before his death, he attempted to give 51% of the water company stock to his granddaughter Loretta Carr (who signed the 1990 annual report filed with the Commission as President). Loretta is also known as Lorie Medina. As a consequence of family problems, Loretta returned the gift to the estate of Bachan S. Teja.¹

In 1991, the utility and G. Dave Teja (Teja), an attorney and executor of the Estate of Bachan S. Teja, determined to sell the utility.

Hillcrest Water Company, Inc.

In 1959, Richard and Eva Parker by D.58247 were granted a CPCN to construct and operate a public utility water system to serve Hillcrest Manor, a subdivision located in an unincorporated area of Sutter County, several miles west of Yuba City. Later that year, the Parkers incorporated their proprietorship, styling it as Hillcrest Water Company, Inc. (Hillcrest) (D.59049), and by subsequent expansions added Walton Heights, Hillcrest Meadows, Piedmont Valley, Galaxy Park, and Walnut Woods to the system. In 1980, West Gate Water Company was merged into Hillcrest (D.91333), and Hillcrest's stock came to be held by Daryl Morrison, who is Hillcrest's president today. Hillcrest was organized into four distinct and separate service areas, Region I, II, III, and IV.

1 It should be noted that PU Code § 854 (a) provides that no person or corporate shall acquire or control either directly or indirectly any public utility without first securing authorization to do so from the Commission, and that any such acquisition or control without that prior authorization shall be void and of no effect. In view of the revocation of the Bachan gift and return of the interest to the estate of Bachan it is unnecessary to pursue this issue further.

The wells in these areas tended to produce water with high concentrations of iron and manganese. It was to redress these water quality problems that Hillcrest in 1983 obtained a \$1,545,000, 35-year, 8.5%, Safe Drinking Water Bond Act loan. In 1988, Hillcrest further expanded, independently financing a new Region V water system located 2 1/2 miles west of Highway 99 (D.88-01-012), and in 1991 it acquired Rancho Water Company to round out its Region V system (D.91-03-045).

Statement of Facts

The present Teja Buena territory is located in part immediately adjacent to Hillcrest's Region V, and an acquisition by Hillcrest was an obvious possibility when Teja Buena and Teja determined to sell out. Such an acquisition by Hillcrest would serve to provide Teja Buena with water exceeding Health Department standards and would also provide fire flow exceeding that required by the local district. Negotiations followed. While initially Hillcrest contemplated acquiring Teja Buena's stock and then merging the two systems, for a number of reasons² Hillcrest's owner decided that it would be in the best interests of Hillcrest and its customers were Hillcrest to purchase only those assets held by Teja Buena and Teja which were needed or potentially needed to continue service, and then to assume water service obligations in Teja Buena's service territory. Accordingly, on August 19, 1991, an Agreement of Purchase and Sale of Assets was signed, and on August 22, 1991, the captioned application was filed.

By this application, and consonant with provisions of Public Utilities (PU) Code §§ 851-854, Teja Buena and Teja seek

² Among these reasons were the facts that certain assets used by Teja Buena were owned not by the utility but by individual members of the Teja family, and that customer relations problems as well as possible liability from Health Department actions would also be acquired were Hillcrest to purchase the entity itself.

ex parte authorization from the Commission to sell and transfer to Hillcrest certain assets held by Teja Buena and Teja used to provide service. Hillcrest is also a signatory party to the application.

The assets to be sold and transferred to Hillcrest include two parcels of land, one with a small building, an operating well, two non-operating wells, associated pumps and motors, storage pressure tanks and distribution mains as set forth in the application, and its attached Agreement of Purchase and Sale. There are no customer deposits and no main extension advances. The customers of Teja Buena have been notified of the proposed sale and transfer. The purchase price is to be \$110,000 of which \$40,000 will be paid in cash, with the balance to be in the form of Promissory Note secured by a Deed of Trust on the Lot 35 real property in the Quail Pointe Estates subdivision. The note, dated as of the closing date of the sale transaction, will carry interest at 11% per annum with payments of principal and interest in the monthly amount of \$1,521.98 beginning the first day of the calendar month after closing, and continuing until paid in full.

The utility plant in service is \$426,401 with depreciation of \$65,464 and net contributions of \$251,174 and a rate base of \$109,763.

The Water Utilities Branch has no objection to the sale and transfer, and states its opinion that Hillcrest would be the logical utility to take over service to Teja Buena's customers. Upon consumation of a sale and transfer Teja Buena asks that it be relieved of its public utility responsibilities with regard to the system and territory. To assure continuity of service under the circumstances, effective June 17, 1991, Hillcrest assumed maintenance and management of Teja Buena's system after notice provided to all Teja Buena customers.

Notice of the filing of the captioned application appeared in the Commission's Daily Calendar of August 28, 1991. No protests were filed.

Discussion

In applications seeking authorization for proposed sales and transfers of public utility water systems the function of the Commission is to protect and safeguard the interests of the public. The concern is to prevent impairment of the public service by the transfer of utility property and functions into the hands of parties incapable of rendering adequate service at reasonable rates or upon terms which would bring about the same undesirable result (So. Cal Mountain Water Co. (1912) 1 CRC 520).

In the present proceeding these concerns are quickly answered and put to rest. Teja Buena has had water quality problems which a service takeover and interconnection to a Hillcrest contiguous service territory system would serve to correct. In addition, Hillcrest can bring additional fire flow adequate to meet the requirements of the local fire district. There would be no adverse financial impact to Teja Buena customers. As to them, Hillcrest will continue the rates set forth in Teja Buena's present tariff. The amount to be paid by Hillcrest closely matches the Teja Buena rate base (\$110,000 vs \$109,763 respectively).

Hillcrest, at present serving 2,254 active service connections, is operated by an experienced owner-manager with adequate financial resources. Hillcrest will retain the two Teja Buena wells presently condemned by the State Department of Health in order to use the sites to install additional storage tank capacity and other equipment necessary to provide future increased capacity. Sometime in the future, it may also rehabilitate the condemned wells by drilling them deep, and using well casing methods to seal off and avoid the high nitrates present at shallow depths.

Teja Buena has asked to be relieved of its public responsibilities upon consummation of the proposed sale and transfer. This we will approve upon payment to the Commission of Public Utility Commission Reimbursement Fees which have been collected by Teja Buena up to the date of the sale and transfer.³

Findings of Fact

1. Teja Buena provides public utility water service to a residential area in the vicinity of Hooper and Tierra Buena Roads west of Yuba City.
2. Hillcrest provides public utility water service to a number of residential areas organized as regional service territories west of Yuba City.
3. Hillcrest's Region V is in part contiguous to Teja Buena's service territory.
4. Teja Buena has had water quality problems in recent years.
5. Teja Buena's owner died in 1990 and the estate desires to sell and transfer the Teja Buena system to another utility.
6. On August 19, 1991, Teja Buena and the executor of the estate of its owner signed an Agreement of Purchase and Sale of Assets with Hillcrest by which Hillcrest would acquire the assets of Teja Buena and take over the service obligation.
7. It can be seen with reasonable certainty that the sale and transfer of the assets to Hillcrest present no significant impact on the environment.

³ This 1 1/2% surcharge levied on sales of water pursuant to PU Code § 433 must be remitted before Teja Buena can be released from its obligations.

8. Teja Buena must remit to the Commission the Public Utilities Commission Reimbursement Fees it is obligated to collect pursuant to PU Code § 433 before it can be relieved of its public utilities responsibilities.

9. Teja Buena customers would benefit from sale and transfer to Hillcrest by receiving adequate supplies of water that meet or exceed Health Department standards and adequate fire protection flows all at the same rates as at present.

10. 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.

11. The proposed sale and transfer of the assets of Teja Buena and transfer of the public utility service obligation to Hillcrest under all the conditions applicable, would not be adverse to the public interest.

Conclusions of Law

1. A public hearing is not necessary.
2. The application should be granted.
3. Upon completion of the sale and transfer, and remittance of the Public Utilities Commission Reimbursement Fees collected to the date of sale and transfer, Teja Buena should be relieved of its public utility obligations in the Teja Buena service territory.

O R D E R

IT IS ORDERED that:

1. Within six months after the effective date of this order, Teja Buena Water Company, Inc. (Teja Buena), and G. Dave Teja, as an individual and as executor of the will of Bachan S. Teja (Teja), may sell and transfer to Hillcrest Water Company (Hillcrest) the assets of Teja Buena.

2. Within 10 days of the actual transfer, Teja Buena and Teja shall notify the Commission in writing of the date on which

the sale and transfer was consummated. A true copy of the instrument effecting the sale and transfer shall be attached to the written notification.

3. Teja Buena shall make remittance to the Commission of the Public Utilities Commission Reimbursement Fees collected up to the date of sale and transfer.

4. Upon completion of the sale and transfer authorized by this Commission order and payment of the fees set forth in Ordering Paragraph 3, Teja Buena shall stand relieved of its public utility obligations in the Teja Buena service territory, and these obligations shall devolve upon Hillcrest.

5. Within 90 days of the transfer date, and in accordance with General Order 96-A, Hillcrest shall file a revised service area map delineating its service territory in the vicinity of Yuba City.

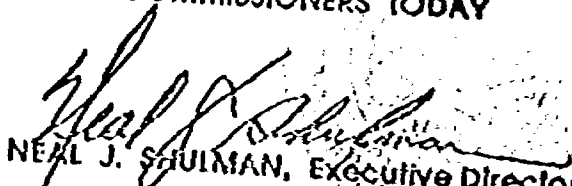
6. Hillcrest shall record the figures for utility plant in service, depreciation, net contributions, and rate base set forth herein in its books of account and in the Annual Reports it files with this Commission, following consumation of the sale and transfer.

This order is effective today.

Dated April 8, 1992, at San Francisco, California.

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

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


NEAL J. SHULMAN, Executive Director