

SEP 3 1992

Decision 92-09-035 September 2, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of E. Steven & Cindy A. Hay, doing business as Central Water System, to sell and Patrick A. Mena, to buy the water system in Tulare County.

Application 92-05-045 (Filed May 27, 1992)

O P I N I O N

E. Steven and Cindy A. Hay, dba Central Water System (sellers), seek to sell the Central Water System (CWS) to Patrick A. and Maria Mena (buyers). Sellers bought the system from family members in 1985. They are now moving out of the state and want to be relieved of their public utility obligation. The Water Utilities Branch of the Commission conducted an investigation of the proposed sale and its report is received as Exhibit 1. The last field investigation of CWS was conducted in 1991 and resulted in a rate increase (Resolution W-3616 dated October 11, 1991.)

There are no customers opposed to the transfer. The sales agreement states that buyer shall pay a sum of \$6,000 to seller for CWS' system in an "as-is" condition. CWS currently serves 42 flat-rate customers in an area known as tract 247 located near Plainview, Tulare County. CWS' water system consists of 1,500 feet of 4-inch water mains, one 3,500-gallon tank, and a 12-inch, 326-feet deep well with a 20 horsepower pump. This well is the only source of supply. Ordering Paragraph 2 of Resolution W-3616 requires CWS to comply with General Order (GO) 103 by installing or otherwise obtaining a second water supply source within one year of the order's effective date. The resolution was issued in connection with a general rate increase. At the time the resolution was issued, it was expected that CWS intended, and had the resources, to comply with such order.

The Water Utilities Branch has determined on further investigation of CWS' customer base and water supply that adding a second water source to the system would not be cost effective. The last general rate case for CWS authorized a 127.3% rate increase over two years. The seller estimates the cost of adding a second supply source to the system to be \$25,000. CWS' customers are mainly low income families who cannot afford to support the costs of installing a second source in addition to the recent rate increase. Current rates do not provide for the second source.

There have been no interruptions in water service under the current system and water quality is consistently good. Given (1) the adequate storage capacity and reliability of the current water system, (2) the inability of CWS' customers to pay for the acquisition of a second source, and (3) that the buyers do not anticipate any additions to CWS' service extensions, the Branch concludes that CWS' single-source water system is sufficient for the current customer base. This conclusion is consistent with Decision (D.) 67298 dated June 3, 1964 which set a precedent in authorizing the construction and operation of a water utility with a single water source. The Branch, therefore, recommends that CWS be given an exemption from the second source of water supply requirement set forth in GO 103.

A review of CWS' annual reports (1985-1991) showed inconsistent and incomplete information on the utility plant in service, plant retirement, and depreciation reserve. The Branch recommends that these records be kept current in accordance with the Commission's Uniform System of Accounts. Further, it recommends that within 60 days of the Commission's approval of the transfer, the new owners be ordered to submit an amended annual report for 1991 showing accounting entries used to resolve inconsistencies. Explanations should be provided if there are substantial differences between the amended annual report accounts and the corresponding rate base items of Table A of this decision.

The buyers own a real estate brokerage company in addition to several properties in nearby Porterville. They will employ the same local company used by the sellers to service and maintain the plant. There are no plans for future expansion of the utility.

Financial statements submitted by the buyers to the Branch show the following:

Total Assets:	\$1,273,500
Total Liabilities:	513,350
Net Worth:	\$ 760,150

Rate Base

Based on information compiled for CWS' 1991 general rate case, estimated rate base for CWS (test year 1992) is as follows:

Table A

Line No.		CWS
1	Utility Plant in Service	\$34,746
2	Depreciation Reserve	3,235
3	Net Utility Plant (1-2)	31,916
4	Contributions/Advances	0
5	Rate Base (3-4)	\$31,916

Rates

CWS' present rates became effective on October 1, 1991 pursuant to Resolution W-3616, which authorized a general rate increase producing a \$5,544 or 100.0% increase in gross annual revenue for test year 1992, and a \$3,024 or 27.3% increase for test year 1993. All customers receive service under Schedule No. 2, Flat Rate Service. Buyers propose to adopt the presently filed tariffs of CWS. There are no competing utilities interested in serving CWS' customers.

All CWS customers were notified of the proposed sale on December 31, 1991 by CWS, and on January 5, 1992 by the buyers. No protest letters were received by CWS, buyers, or the Branch.

Findings of Fact

1. The application for transfer of ownership should be granted on an ex parte basis.
2. The authority to serve granted in this application should be limited to the area presently served by Central Water System. The utility should not be allowed to extend its service area without obtaining Commission authorization.
3. All future annual reports submitted to the Branch by Central Water System should conform to the Commission's Uniform System of Accounts. The new owners should be directed to submit, within 60 days of the effective date of transfer approval, an amended annual report for 1991 resolving the accounting inconsistencies between prior annual reports and the rate base quantities used in Table A of this decision.
4. The existing single-source water system currently serving Central Water System should be recognized as sufficient to serve the current customer base, and as such should be exempt from the second source requirement mandated by GO 103. This exemption should be valid until such time as the Commission determines the system is no longer able to supply sufficient water quantity and quality to its customers, or until it determines that obtaining a second source would not place an undue economic burden on its customers.
5. Buyers have the resources and capability to operate the system.

Conclusion of Law

The Commission concludes that the application should be granted.

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

ORDER

IT IS ORDERED that:

1. On or before December 31, 1992, E. Steven and Cindy A. Hay, dba Central Water System, may transfer the water system (and other assets) designated in the application to Patrick A. and Maria Mena.

2. As a condition of this grant of authority, buyers shall assume the public utility obligations of sellers, shall assume liability for refunds of all existing customer deposits, and shall notify the affected customers.

3. Within 10 days after transfer, buyers shall write the Commission, stating the date of transfer and the date the requirements of paragraph 2 were completed.

4. Buyers shall either file a statement adopting sellers' tariffs or refile those tariffs under their own name as prescribed in General Order Series 96. Rates shall not be increased unless authorized by this Commission.

5. Before the transfer occurs, sellers shall deliver to buyers, and buyers shall keep, all records of the construction and operation of the water system.

6. Within 90 days after actual transfer, buyers shall file, in proper form, (i) an annual report on sellers' operations from the first day of the current year through date of transfer and (ii) an amended annual report for 1991 resolving the accounting inconsistencies between prior annual reports and the rate base quantities used in Table A of this decision.

7. The utility is not allowed to extend its service area without obtaining Commission authorization.

8. Buyers are exempt from the second water source requirement of GO 103, until further order of the Commission.

9. When this order has been complied with, sellers shall have no further obligations in connection with this water system.

10. The Water Utilities Branch shall assist buyers in complying with this order.

This order is effective today.

Dated September 2, 1992, at San Francisco, California.

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

Commissioner Patricia M. Eckert,  
being necessarily absent, did  
not participate.

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

  
NEAL J. SCHULMAN, Executive Director