

Decision 82 03 017 MAR 2 - 1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of SALINAS HILLS WATER COMPANY, a
corporation, MISSION HILLS WATER
COMPANY, a corporation, and
CALIFORNIA WATER SERVICE COMPANY,
a corporation, for an Order
authorizing (1) the sale and
transfer to California Water
Service Company of the water
system of Salinas Hills Water
Company and (2) various other
actions related thereto.

Application 61145
(Filed December 23, 1981;
amended January 4, 1982)

O P I N I O N

Salinas Hills Water Company (Salinas Hills), Mission Hills Water Company (Mission Hills), and California Water Service Company (CWS), all California corporations, request the Commission's approval to sell and transfer Salinas Hills water system to CWS. The water system is situated south of the City of Salinas. Approval is also sought for certain related actions, i.e.:

1. Integrate the water system into the Salinas district of CWS for accounting and operational purposes.
2. CWS to provide water service in the territory of the Salinas Hills water system at rates and rules applicable in the Salinas district of CWS.
3. Add to the rate base of the Salinas district of CWS the amount of \$146,964, the total of \$75,199 to be deposited in escrow by CWS plus \$71,765 representing refunds due as of June 30, 1981 under main extension agreements.
4. Main extension agreements which deviate from the filed tariff extension rule.

5. Discontinuance of water service by Salinas Hills and Mission Hills upon transfer of the system to CWS.

Salinas Hills also furnishes public utility sewer service in the same territory served by its water system. CWS states it is not interested in acquiring the sewer system.

Notice of filing of the application appeared in the Commission's Daily Calendar of December 28, 1981. CWS on December 24, 1981 mailed a notice to each of the approximate 730 customers of Salinas Hills. The notice briefly described the proposal of CWS and gave specific examples of the billing effects of the proposed rate changes. The notice included billing comparisons reflecting rates in the Salinas district of CWS authorized to become effective January 1, 1982. As of the end of January five customers had written to the Commission protesting the rate increase. Three other letters were in favor of the transfer because it would improve service. No other protests to the application have been received.

Salinas Hills is wholly owned by Mission Hills, which is wholly owned by Valinda Engineering Company, a California corporation. Operation and management of the water system is provided for Salinas Hills by Toro Utility Services, a California corporation.

The applicants state that Salinas Hills has had and continues to have serious financial problems which threaten its financial integrity. As of December 31, 1980, the assets of Salinas Hills totaled \$405,662; stockholders' equity was a deficit of \$83,577. Net income for 1980 amounted to a loss of \$53,473. Applicants further state that Salinas Hills is delinquent in obligations to numerous creditors. These include charges for power furnished by the energy utility, obligations for taxes paid by others in behalf of Salinas Hills, and obligations for refunds due under extension agreements. The delinquent obligations of Salinas Hills

are enumerated on pages 3 through 6 of the Agreement, Exhibit 1 attached to the application.

The agreement, between CWS, Salinas Hills, Mission Hills, and certain creditors of Salinas Hills (15 parties in all) generally provides that property tax obligations and power charges will be paid in full. Obligations to other creditors will be paid pro rata. The above payments will be made from the CWS escrow deposit of \$75,199.

Under terms of the agreement, upon completion of the transfer, the creditors are committed to waive all claims against CWS and the water system.

It is proposed that the Salinas Hills water system be integrated with the Salinas district of CWS and that Salinas district rates be made applicable to service in the territory to be integrated. The following tabulation provides examples of the billing effects of the proposed rate change (reflects Salinas district rates effective January 1, 1982):

<u>Monthly Consumption, cf.</u>	<u>Salinas Hills Water Company</u>	<u>CWS Salinas</u>	<u>CWS Exceeds Salinas Hills</u>
0	\$4.00	\$4.20	5.0%
300	4.00	4.93	23.3
500	4.00	5.61	40.3
1,000	4.50	7.32	62.7
1,500	5.75	9.02	56.9
2,000	7.00	10.73	53.3
3,000	9.50	14.14	48.8

Assuming average monthly consumption to be 1,000 cubic feet (cf) per month, average billing would increase from \$4.50 to \$7.32 or 62.7%. Gross revenues from the system would be increased approximately \$25,000 annually. If average consumption of 1,500 cf is assumed, gross revenues would be increased about \$28,000. Billing impact of the rate change could be mitigated by making the increase

in two steps, such as increasing the rates by one-half of the difference now and the balance on January 1, 1983. However, the dollar increase for the assumed average customer is not large. In addition, were we to authorize a second step increase on January 1, 1983 its effect would be compounded when added to a step rate increase authorized to become effective that same date by Decision (D.) 92988 (May 5, 1981) in a general rate increase proceeding of CWS. The substantial loss of some \$53,000 incurred by Salinas Hills in 1980 is also a factor that must be considered.

CWS states the Salinas Hills system is close enough to the Salinas district of CWS so it will be able to operate the acquired system with existing personnel, except that one additional employee may be needed.

CWS asks that we authorize a rate base increase for the Salinas district of \$146,964, subject to some adjustments, upon transfer and merger of the water system. This sum can be termed the "purchase price," and is derived from the escrow deposit of \$75,199 by CWS plus \$71,765 representing extension refunds due as of June 30, 1981. However, at page 5 of the application the Salinas Hills system rate base adjusted to June 30, 1981 is shown to be \$75,199:

Cost of utility plant	\$541,445	
Accrued depreciation	<u>164,412</u>	
Net utility plant		\$377,033
Advances	277,316	
Contributions	<u>24,518</u>	
		<u>301,834</u>
Net investment		<u>75,199</u>

Rate base, the amount on which the utility is given the opportunity to earn the authorized return, has long been based on the original cost of utility plant less accumulated depreciation and less advances and contributions.

However, since the parties to this application indicate that as soon as the transfer is completed, the delinquent advance refunds will be settled along with other water utility debts of seller, the rate base adjusted to the date the escrow is closed should be the \$146,964 requested, developed as follows:

Cost of utility plant	\$541,445	
Accrued depreciation	<u>164,412</u>	
Net utility plant		\$377,033
Advances	277,316 - 71,765 =	\$205,551
Contributions	<u>24,518</u>	
		<u>230,069</u>
Net Investment		\$146,964

Findings of Fact

1. Salinas Hills is in a very precarious financial condition. In 1980 it experienced a net loss of over \$53,000.

2. Salinas Hills is delinquent in obligations to numerous creditors.

3. CWS has the financial ability, technical knowledge, and experience to operate the Salinas Hills water system successfully.

4. Sale and transfer of the water system to CWS is in the public interest.

5. Integration of the Salinas Hills water system into the Salinas district of CWS for accounting and operational purposes is justified and reasonable.

6. The proposal to apply CWS Salinas district rates to customers in the territory of the Salinas Hills water system is just and reasonable.

7. The increases in rates and charges authorized by this decision are justified and reasonable.

8. Upon completion of the sale and transfer of the Salinas Hills water system and settlement of the delinquent main extension advance refunds as agreed, an increase in CWS' Salinas district rate base of \$146,964 adjusted to reflect actual changes in recorded plant and accrued depreciation subsequent to June 30, 1981, is fair and reasonable.

9. The extension agreements listed in Exhibit E to Exhibit 1 of the application, which deviate from filed tariff rules, are acceptable to the customers affected.

Conclusions of Law

1. The sale and transfer of Salinas Hills water system to CWS, as proposed in the application should be approved.

2. Rates applicable in the Salinas district of CWS should be authorized to apply to customers of Salinas Hills.

3. The rate base of the Salinas district of CWS should be increased no more than \$146,964, adjusted for recorded changes in plant and accrued depreciation subsequent to June 30, 1981.

4. Prior execution by Salinas Hills or Mission Hills of the extension agreements listed in Exhibit E of Exhibit 1 of the application, which agreements deviate from the filed tariff extension rule, should be approved.

5. When transfer of the water system is completed Salinas Hills and Mission Hills should be relieved of their public utility obligations for the transferred system.

6. Public interest and convenience require that this order be effective on the date signed.

O R D E R

IT IS ORDERED that:

1. The sale and transfer of Salinas Hills Water Company water system to California Water Service Company is authorized. This authority will expire if not exercised by September 30, 1982. ✓

2. After the effective date of this order California Water Service is authorized to file in compliance with General Order Series 96, revised tariffs and service area maps to reflect rate and service integration of the Salinas Hills Water Company water system into the Salinas district of California Water Service. The effective date of these tariffs shall be 5 days after filing.

3. After the authorized transfer is completed and delinquent main extension advance refunds are settled, the rate base of the Salinas district of California Water Service shall be increased no more than \$146,964, adjusted for recorded changes in plant and accrued depreciation subsequent to June 30, 1981. Within 30 days after effecting this change California Water Service shall file a report with the Revenue Requirements Division showing the changes it has made in its books of accounts to reflect this authorization.

4. Prior execution of extension agreements by Salinas Hills Water Company or Mission Hills Water Company as proposed in the application is authorized. California Water Service, after transfer of the system, shall assume these obligations and their performance.

5. When the authorized transfer is completed and conditions of this order have been fulfilled, Salinas Hills Water Company and Mission Hills Water Company shall be relieved of their water public utility obligations for the transferred system.

6. Within 90 days after transfer, California Water Service shall file with the Commission's Revenue Requirements Division, in

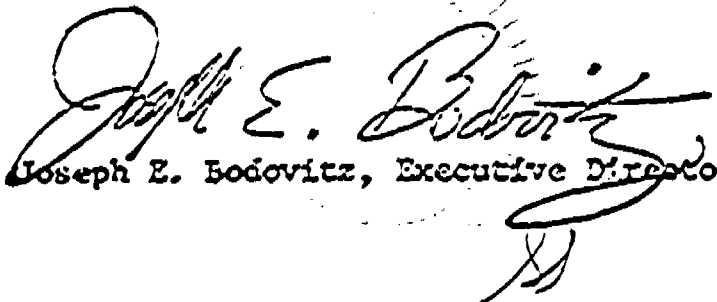
the prescribed form, a report on operations of Salinas Hills Water Company from the first day of the current year through the effective date of transfer.

This order is effective today.

Dated MAR 2 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. CREW
Commissioners

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


Joseph E. Bodovitz, Executive Director