

ORIGINAL

Decision 83 03 004 MAR 2 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of ROLLING GREEN
 UTILITIES, INC., a California
 corporation, a water company, and
 DEAN W. KNIGHT & SONS, INC., a
 land development company operating
 a sewer company for an order
 authorizing and approving a sale
 of the sewer system owned and
 operated by Dean W. Knight &
 Sons, Inc. to Rolling Green
 Utilities, Inc. (Public Utilities
 Code Sections 851 et seq.)

Application 61103
 (Filed December 2, 1981)

O P I N I O N

Dean W. Knight & Sons, Inc. (seller) is a land development company which also operates a public utility sewer system corporation under Commission jurisdiction.^{1/} Rolling Green Utilities, Inc. (buyer) provides public utility water service to 186 customers and propane utility gas service in an area being developed by seller. In Decision (D.) 69724 dated September 28, 1965 in Application (A.) 47642, a certificate of public convenience and necessity was granted to buyer, authorizing it to provide public utility water and public utility propane gas services.^{2/} Buyer and seller provide their respective utility services within overlapping service areas. Seller also provides sewer service to a sanatorium located over one-quarter mile south of its main service area.

^{1/} Sewer system corporations were not under Commission jurisdiction at the time seller was incorporated. (See Public Utilities (PU) Code Section 230.6.)

^{2/} Buyer's propane gas corporation is no longer under Commission jurisdiction. (See PU Code Sections 221 and 222.)

Process
H-7
3-2-83

Buyer and seller seek Commission approval of the sewer system sale. Buyer also seeks authority to issue its \$80,000 note to seller for the acquisition of the sewer system (see Exhibit 1). Seller wants to sell the system because it expects to cease its operations after it completes a current subdivision development project. In addition, the parties want buyer to enter into a 25-year lease for the lands on which the sewer system's treatment ponds are located. The two utilities use the same employees and the same office. The utilities believe that the sale will result in economies in utility billing, bookkeeping, legal, and accounting expenses.

Dean W. Knight owns 51% of the common equity of buyer and of seller. His wife, Olivia A. Knight, owns the remaining common equity in the two companies (see Exhibit 1).

On December 15, 1978 seller and buyer held special meetings of their respective boards of directors. Buyer accepted seller's offer to purchase the sewer system as of January 1, 1979, for an \$80,000 noninterest-bearing promissory note due on January 1, 1989. That note (Exhibit H attached to the application) is unsecured. Seller represents that the depreciated book value of its \$137,970 sewer system was \$80,000 at that time.

In A.60485, seller's application to increase its sewer rates, seller submitted evidence that it must construct additional sewer treatment facilities to meet the water quality discharge requirements set by the California Regional Water Quality Control Board, Lahontan Region (Lahontan). Mr. Knight testified that he will either provide the funds for these improvements or he will personally guarantee a loan for that purpose.

Discussion

The purposes for which the sale and transfer of control sought are reasonable. It would be desirable to consolidate the three utility operations into one corporation.

The application also requests issuance of an \$80,000 promissory note based on prior net plant values. Buyer's net assets are now less than \$80,000.

The amount of the note issued should be reduced to reflect seller's equity investment in sewer plant. As of December 31, 1982 seller's utility plant in service was \$146,660; its reserve for depreciation was \$60,120, based on a 1982 depreciation expense accrual of \$3,340; and its net contributed plant was \$12,290.^{3/} Seller's equity plant investment was \$74,250 as of December 31, 1982. Any note issued should be further reduced by a depreciation accrual based on an annual accrual rate of 0.025. The amount of the note may be increased up to \$80,000 if the Knights provide seller with equity capital to construct sewer system improvements prior to the date the system is transferred to buyer.

If the authorization granted in this decision is exercised, buyer's books should show the original cost of sewer system assets, the accrued reserve for depreciation, and contributed plant assets at the time of transfer.

^{3/} Contributed plant totaled \$13,060. The accrued depreciation on contributed plant was \$770.

Findings of Fact

1. Buyer, a California corporation, owns and operates a water corporation which is subject to the jurisdiction of this Commission and a propane gas distribution utility which is not subject to the jurisdiction of this Commission.

2. Seller, a land development company, owns and operates a sewer system corporation subject to the jurisdiction of this Commission.

3. Dean W. Knight and Olivia A. Knight own all of the common stock of buyer and seller. Seller plans to cease its operations after completion of a current subdivision development project.

4. Buyer seeks authorization to issue its unsecured, noninterest-bearing note in the amount of \$80,000 to seller, which is due on January 1, 1989, for the purchase of the sewer system assets. Buyer is required to pay a fee of \$160 to issue a long-term note of \$80,000 authorized by the Commission. Buyer may issue its note in the amount of seller's equity investment in sewer plant. This amount was \$74,250 on December 31, 1982. The amount of the note should be further reduced based on accrued depreciation from December 31, 1982 to the date of transfer. The amount of the note may be increased up to \$80,000 if the Knights make further system equity investments in seller's sewer system prior to the transfer. If the note is issued for less than \$80,000, the fee should be reduced by \$2 per thousand for each thousand dollars or fraction thereof. ✓

5. Buyer could achieve economies in its utility operations if it acquires seller's sewer system.

6. The purposes for which the sale and transfer of control sought are reasonable. Economies are possible if the three utility operations are consolidated into one corporation.

Conclusions of Law

1. A public hearing is not necessary.
2. The transfer authorized will permit buyer to lawfully assume control of the sewer system operations of seller.
3. Buyer's note to seller may not exceed seller's net equity plant investment.
4. The sale will be made effective upon payment to the Commission of the \$160 fee for issuance of an \$80,000 note by buyer as required by PU Code Section 1904(b) or of a lesser fee if seller's net equity investment in utility plant and equity funding to construct sewer treatment plant improvements is less than \$80,000.

The authorization granted is for the purposes of this proceeding only and is not to be construed as a finding of value of the assets being sold.

O R D E R

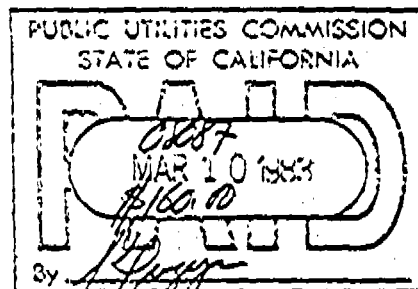
IT IS ORDERED that Dean W. Knight and Sons, Inc. (seller) is authorized to sell its sewer system assets to Rolling Green Utilities, Inc. (buyer) and for buyer to issue its noninterest-bearing promissory note due January 1, 1989 to seller. The transfer and sale shall be made effective upon payment to the Commission of the \$160 fee for issuance of an \$80,000 note by buyer as required by PU Code Section 1904(b)

or of a lesser fee if seller's investment in utility plant and equity funding to construct its sewer treatment plant improvements is less than \$80,000. Seller shall file documentation to support the amount of the note issued within 15 days of the transfer date.

This order becomes effective 30 days from today.

Dated MAR 2 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners



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

Joseph E. Bodovitz
Joseph E. Bodovitz, Executive Director

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