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Decision No. 89775 DEC 19 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
JOHN B. BAXTER, doing business as  
CALIFORNIA HOT SPRINGS WATER COMPANY  
for authority to sell his water  
system, and for FRANCIS NEIL GILBERT  
to buy said water system, located at  
California Hot Springs, County of  
Tulare.

Application No. 58199  
(Filed July 5, 1978)

In the Matter of the Application of  
JOHN B. BAXTER, doing business as  
CALIFORNIA HOT SPRINGS SEWER COMPANY  
for authority to sell his sewer  
system, and for FRANCIS NEIL GILBERT  
to buy said sewer system, located at  
California Hot Springs, County of  
Tulare.

Application No. 58200  
(Filed July 5, 1978)

O P I N I O N

John B. Baxter (Seller), dba California Hot Springs Water Company (Water Company) and as California Hot Springs Sewer Company (Sewer Company), requests authority under Sections 851-853 of the Public Utilities Code to sell and transfer these two utility systems to Francis Neil Gilbert (Purchaser).

These two utilities are located in the same area, in or near the community of California Hot Springs, serving approximately 33 customers.

The sale of the utilities is included in the sale of the resort known as California Hot Springs, containing approximately 268 acres of land on which the water system and the sewer system are located. The total sale price of the resort is \$290,000, including the utilities, with payment on the unpaid principal and interest in monthly installments of \$2,425.82. The portions of

A. 58199, A. 58200 FG\*

the payments to be credited toward payment for the utilities are not separately identified. By the terms of the promissory note, any default in the payment of any installment shall cause the whole note to become due and payable.

The annual reports of the two utilities are alleged in A-58200 to be combined into one report, noted as the Report of the California Hot Springs Water Company. There is no indication in the reports that this is so. Original cost, shown in the 1977 report, of the allegedly combined systems is \$59,496 with a depreciation reserve of \$13,418, for a net book cost of \$46,078. The proposed sale price of the water utility alone is \$75,000, payable \$20,625 as a down payment and the remainder amortized over a period of 20 years at 8% interest per annum, with a security agreement for \$54,375 against the water company supporting the promissory note.

Applicant alleges, in A-58200, that the original cost of the sewer system is \$60,000, with no depreciation. The proposed sale price is \$65,000, payable \$17,875 as a down payment with the balance amortized over a period of 20 years at 8% interest, with a security agreement against the sewer system for \$47,125 supporting the promissory note. The Commission staff, in 1973, determined that the original cost of depreciable sewer plant, constructed for 75 customers, was \$48,753, with a land value of \$2,000 for a total value of \$50,753. Depreciation was determined to be \$1,780 per annum. On this basis the current net book cost of the sewer plant would be \$43,633 ( $\$50,753 - (4 \times \$1,780)$ ). (See tabulation, page 3.) Comparable determination of the original cost of the water system has not been made. Staff has discussed the apparent discrepancy between costs cited in the annual reports and the application with representatives of Seller and has been advised that the water system and the sewer system costs are indeed combined in the annual

A. 58199, A. 58200 FG

reports. If the amount determined to be properly sewer plant were to be deducted from the cost shown in the annual reports, it would make the original cost of the water system \$8,733.

Annual reports have been filed for years 1974, 1975, 1976 and 1977 and show original cost as \$58,981, \$58,981, \$59,496 and \$59,496.

The latter two years show the addition of a reservoir in 1976 at \$515. Accrued depreciation is shown as \$1,487, \$1,487, \$10,424 and \$13,418. The end-of-year 1975 accrued depreciation is shown as \$1,487, but the start-of-year 1976 is given as \$7,433. No explanation of these figures has been presented by applicants. The reports do not identify the contents as being for both water and sewer utilities.

In Application No. 58199 the water system is alleged to be a water distribution system only, with 10 artesian wells, with 250,000 gallons per day of heated water (125°) available; one pump and pumphouse; a cold water holding tank; and approximately 450 ft. of 1-1/4" AC pipe, 1,900 ft. of 2" AC, 450 ft. of 2-1/2" AC, 400 ft. of 4" AC and 1,950 ft. of 6" AC pipe. The annual reports do not contain any information as to size and number of tanks or size and footage of pipe.

The sewer system plant, as determined by the staff in 1973, is tabulated below with staff determined original costs.

Treatment Plant	\$11,802
Pumping Equipment	6,335
Treatment Equipment	1,867
Three Holding Ponds	6,313
Sewer Mains	15,833
Sewer Services	6,603
	<u>48,753</u>
Land	2,000
Total Plant	<u>50,753</u>

A. 58199, A. 58200 FG\*

In Application No. 58200 it is alleged that there are two holding tanks, three settling ponds of 50' x 120', 10' x 400', and 70' x 50'; two 5-hp pumps and pumphouse; and 200 ft. of 2" AC pipe, 300 ft. of 3" AC, 1,900 ft. of 4" AC, and 1,850 ft. of 6" AC pipe. The annual reports contain no information on the size or footage of the sewer system plant.

The Purchaser's financial statement, Exhibit B to both applications, indicates that he has sufficient resources to maintain and operate both systems.

Purchaser wishes to purchase the utility systems as they are integral to the resort which he wishes to develop. Seller desires to sell as he is selling the resort area to the same Purchaser and also believes the utilities should be integral to the resort operation.

Seller and Purchaser allege that there are no customer deposits to establish credit and no main extension advances for either utility. Seller and Purchaser accepted joint responsibility for informing the customers of the two utilities of the proposed sale. A copy of the notice of sale has been received by the staff. No objections have been received. ✓

The condition of both systems is good. The water utility is basically a gravity system, with only one small area depending on pumped storage. The utility system was constructed for 75 customers and is overbuilt for the present use. It is in good condition. Purchaser has agreed to accept the utilities in their present condition, but any claims or costs arising prior to the closing date which arise out of or are related to the operation, maintenance and repair of the system remain the responsibility of Seller.

Discussion

The applications, periodic fiscal reports, financial statements and items of correspondence all differ widely in identifying the original cost of the two systems. It appears that a reasonable determination has been made in the case of the Sewer Company, but that there is no substantiated cost available for the Water Company. Such determinations must be provided for both utilities prior to any rate action, at which time the rate bases upon which the utility may earn a return will be determined, but may be dispensed with in this instance, as the sale is basically of the resort, at \$290,000, and regardless of allocated cost the utilities will stand or fall with the fortunes of the resort. It appears inadvisable to attempt to separate them from the resort, as operationally they are vital to the resort and must be considered best managed and operated as a part of the whole. However, we will require a determination of original water system costs and a filing of separate annual reports for the two utilities.

Findings and Conclusions

1. Annual reports and other data should be prepared and maintained separately for each utility.
2. Purchaser has adequate financial resources to operate and manage the Water and Sewer Companies.
3. The proposed sale and transfer is not adverse to the public interest.
4. A public hearing is not necessary.

It can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment.

A. 58199, A. 58200 FG\*

The authorization herein granted shall not be construed as a finding of the value of the rights and properties herein authorized to be transferred nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. On or before March 31, 1979, John B. Baxter may sell and transfer the water and sewer systems (and other assets) referred to in Applications Nos. 58199 and 58200 to Francis Neil Gilbert.
2. As a condition of this grant of authority, Purchaser shall assume the public utility obligations of Seller within the area served by the water system being transferred and shall assume liability for refunds of all existing customer deposits and advances pertaining to the utility systems being transferred. Purchaser shall send notice of the assumption of liability for refunds to all customers affected. ✓
3. Within ten days after completion of the transfer Purchaser shall notify the Commission, in writing, of the date of completion and of the assumption of the obligations set forth in paragraph 2 of this order.
4. Purchaser shall either file a statement adopting the tariffs of Seller now on file with this Commission or refile under its own name those tariffs in accordance with the procedures prescribed by General Order No. 96-A. No increase in rates shall be made unless authorized by this Commission.
5. On or before the date of actual transfer, Seller shall deliver to Purchaser, and the latter shall receive and preserve all records, memoranda, and papers pertaining to the construction and operation of the water and sewer systems authorized to be transferred.

A. 58199, A. 58200 FG

6. On or before the end of the third month after the date of actual transfer, Purchaser shall cause to be filed with the Commission, in such form as it may prescribe, separate annual reports covering the operations of Seller for each utility for the period commencing with the first day of the current year to and including the effective date of the transfer. Original costs of the water system shall be determined and approved by this Commission. Annual reports shall henceforth be prepared and filed separately for the water and sewer utilities.

7. Upon compliance with all of the terms and conditions of this order, Seller shall be relieved of its public utility obligations in connection with the water system transferred.

On or after the effective date of this order and on or before March 31, 1979, for the purposes specified in this proceeding, transferee may issue evidence of indebtedness in the principal amount of not exceeding \$75,000 for the Water Company and \$65,000 for the Sewer Company, and may execute and deliver encumbering documents, which documents shall be in substantially the same form as those attached to the application.

A. 58199, A. 58200 FG\*

The authority granted by this order to issue evidence of indebtedness (and to execute and deliver encumbering documents) shall become effective when the issuer has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$280. In other respects the effective date of this order shall be thirty days after the date hereof.

1966 Dated at San Francisco, California, this  
day of DECEMBER, 1978.

Robert Batminal

President

William Squors

Leon L. Stoyan

Charles C. Hoyle

Clare J. Debrich

Commissioners

