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Decision No. 90708 AUG 28 1979

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application)
of JAMES J. DOWNEY, doing business as)
RUSSIAN RIVER TERRACE WATER COMPANY)
and RIO DELL WATER COMPANY, and RUSSIAN)
RIVER WATER COMPANY, INC., a California)
corporation, for authority to sell and)
transfer his certificate of public)
convenience and necessity and related)
assets to RUSSIAN RIVER WATER COMPANY, INC.)
and for the latter to issue and sell)
1,000 shares of its capital stock)

Application No. 58712
(Filed March 1, 1979)

O P I N I O N

James J. Downey (Downey) doing business as Russian River Terrace Water Company (Russian River Terrace) and Rio Dell Water Company (Rio Dell) seeks authority to sell and transfer his water systems to Russian River Water Company, Inc., and the latter seeks authority to issue 1,000 shares of its no par value capital stock.

Authority for the consolidation of the two water systems is sought pursuant to Section 851, and issuance of the stock pursuant to Section 817 and 818 of the Public Utilities Code. Notice of the filing of the application was published on the Commission's Daily Calendar of March 5, 1979.

James J. Downey owns and operates Russian River Terrace Water Company near the town of Forrestville in Sonoma County pursuant to authority granted in Decision No. 40203, dated April 29, 1947 in Application No. 28309. The utility served 41 metered and 371 nonmetered customers at the end of 1978.

James J. Downey also owns and operates Rio Dell Water Company. Its service area is adjacent to Russian River Terrace Water Company in Sonoma County. The water company operates pursuant

to the authority granted in Decision No. 37888, dated May 15, 1945 in Application No. 26702. Rio Dell served thirty metered and 336 nonmetered customers at the end of 1978.

Russian River Water Company, Inc. is a California corporation incorporated on December 13, 1978. It proposes to issue 1,000 shares of its no par capital stock to James J. Downey in exchange for the operating authorities and related assets and to assume all the liabilities of the two sole proprietorship water systems. A resolution by the Board of Directors of Russian River Water Company, Inc. states that the values to be assigned the systems on the corporate records will be the original cost of the utility plant as presently recorded on the records of Russian River Terrace Water Company and Rio Dell Water Company. The application indicates that James J. Downey would merely transfer his two water businesses to a corporation of which he would be the sole stockholder.

James J. Downey has applied to the State Department of Water Resources under the California Safe Drinking Water Bond Act of 1976 for two loans aggregating a minimum of \$550,000 to effect necessary and desirable capital improvements to both the Russian River Terrace and Rio Dell water systems and thereby meet the water quality standards, and water quantity and pressure requirements prescribed by Title 17 of the California Administrative Code and General Order No. 103 of the Commission. In connection with such loan applications, the State Department of Water Resources has expressed the suggestion and desire, with which Downey is in accord, that Downey incorporate the two water systems in question in a California corporation in order to (1) facilitate the granting and servicing of the contemplated loans from the State of California, (2) the payment of the two loans, and (3) the management and operation of the two systems, each of which would be maintained as a separate division or district of the newly formed corporation.

A pro forma consolidated balance sheet as of December 31, 1978 furnished by Downey shows the following:

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	Russian River Terrace Water Co.	Rio Dell Water Co.	Russian River Water Co., Inc.
<u>Assets</u>	<u>(Recorded)</u>	<u>(Recorded)</u>	<u>Pro Forma</u>
Water plant in service	\$60,172	\$58,682	\$118,854
Reserve for depreciation	(23,012)	(22,595)	(56,607)
Water plant less reserve	26,160	36,087	62,247
Cash	200	200	400
Accounts Receivable	973	589	1,562
Total	<u>\$27,333</u>	<u>\$36,876</u>	<u>\$ 64,209</u>
<u>Liabilities and Capital</u>			
Proprietary capital	\$26,601	\$36,876	
Common stock			\$63,477
Advances for construction	732		732
Total	<u>\$27,333</u>	<u>\$36,876</u>	<u>\$64,209</u>

No changes will occur in operations or personnel as a result of the consolidation of the two systems.

Russian River Terrace had a net loss of \$7,926 and Rio Dell a net loss of \$5,702 according to the respective 1978 annual reports. Downey has submitted by letter dated July 2, 1979, a record of his personal finances. This letter indicates that any cash funds required by Russian River Water Company, Inc. will be advanced by Downey on an open account basis.

The Revenue Requirements Division has reviewed the proposal set forth in the application and considers the request for consolidation reasonable.

Findings of Fact

1. James J. Downey, doing business as Russian River Terrace Water Company, Rio Dell Water Company and Russian River Water Company, Inc. are public utilities subject to the jurisdiction of this Commission.

2. The proposed transfer to a corporation would not be adverse to the public interest.

3. The proposed stock issue is for a proper purpose.

4. The money, property or labor to be procured or paid for by the issue of stock herein authorized is reasonably required for the purpose specified herein, which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

5. There is no known opposition and there is no reason to delay granting the authority requested.

Conclusions of Law

1. The application should be granted to the extent set forth in the order which follows.

2. A public hearing is not necessary.

The action taken herein shall not be construed as a finding of the value of the rights and properties authorized to be transferred. In issuing this decision we place Russian River Water Company, Inc., a corporation, and its shareholder on notice that we do not regard the number of shares outstanding, the stated value of the shares, nor the dividends paid, as measuring the return it should be allowed to earn on its investment in plant, and that this authorization is not to be construed as a finding of the value of the company's stock or property, 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 after the effective date hereof and before December 31, 1979, James J. Downey may sell and transfer the water systems and related assets referred to in the application to Russian River Water Company, Inc., a corporation.

2. Russian River Water Company, Inc. in acquiring the water systems and related assets, may assume the outstanding liabilities and issue not exceeding 1,000 shares of its no par value capital stock.

3. James J. Downey may acquire a controlling interest in the capital stock of Russian River Water Company, Inc.

4. Russian River Water Company, Inc. shall file with the Commission the report required by General Order 24-B, which order, insofar as applicable, is hereby made a part of this order.

5. As a condition of this grant of authority Russian River Water Company, Inc. shall assume the public utility obligations of the water systems being transferred, and shall also assume liability for refunds of all existing customer deposits and advances pertaining to the water systems being transferred. Russian River Water Company, Inc. shall send notice of the assumption of liability for refunds to all customers affected.

6. Within ten days after the completion of the transfer authorized herein Russian River Water Company, Inc. shall notify this Commission, in writing, of the date of completion and of the assumption of the obligations set forth in Ordering Paragraph No. 5 of this order.

7. Russian River Water Company, Inc. shall either file a statement adopting tariffs of Russian River Terrace Water Company and Rio Dell Water Company 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.

8. On or before the date of actual transfer, James J. Downey, doing business as Russian River Terrace Water Company and Rio Dell Water Company shall deliver to Russian River Water Company, Inc., and the corporation shall receive and preserve all records, memoranda, and paper pertaining to the construction and operation of the water systems authorized to be transferred.

9. Within sixty days after completion of the transfer authorized herein, Russian River Water Company, Inc. shall file with the Commission a copy of each journal entry used to record the transactions on its books of account.

10. Upon compliance with all the terms and conditions of this order, transferor shall be relieved of his public utility obligations in connection with the water systems transferred.

11. The authority granted by this order to issue capital stock will become effective when Russian River Water Company, Inc. has paid the fee prescribed by Section 1904.1 of the Public Utilities Code, which fee is \$128. In other respects the effective date of this order shall be thirty days after the date hereof.

Dated at San Francisco, California this 28th day of AUGUST, 1979.

John E. Boyce
President
Charles D. Cook
Leonard W. Jones
Commissioners

Commissioner Clair T. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.

