

ORIGINAL

Decision No. 91855 JUN 3 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

The Commission is requested to modify)
P.U.C. Resolution No. W-2393, approve)
the Safe Water Projects Loan when the)
Department of Water Resources submits)
the loan to the P.U.C., authorize)
Meadowbrook to assess the owners of)
unimproved parcels an equitable amount)
for loan payback purposes; and revise)
the payback rates of 148 customers.)

Application No. 59182
(Filed October 3, 1979)

John F. Rausch, for applicant.
Ernest E. Hansen, for himself, interested party.
James J. Cherry, Attorney at Law, M. J. Purcell, and Arthur B. Jarrett, for the Commission staff.

INTERIM OPINION

Applicant, Meadowbrook Water Company, Inc. (MB), petitioned^{1/} for rehearing or, in the alternative, for a summary modification of Commission Resolution No. W-2393 (W-2393) dated September 6, 1978 in Advice Letter No. 8 as described below.

W-2393 authorized a 113 percent rate increase^{2/} to MB subject to refund and to termination of the rate increase if MB did not meet a five-phase schedule for completion of system improvements as follows:

-
- 1/ A member of the Commission staff advised MB to file the subject application instead of MB's letter request dated September 16, 1979 (Exhibit 1).
 - 2/ This increase was to be reduced to flow through reduced property taxes. In Advice Letter No. 9 MB sought to offset its \$656 property tax reduction against a \$1,577 increase in purchased water costs. Resolution No. W-2509 authorized a net annual increase in rates of \$921.

Schedule of System Improvements

<u>System Improvement</u>	<u>Completion Date</u>
<u>Phase I</u> Install approximately 900' of 6" main	October 1, 1979
<u>Phase II</u> Install approximately 1,825' of 6" main	April 1, 1980
<u>Phase III</u> Install approximately 860' of 6" main	December 1, 1980
<u>Phase IV</u> Refurbish existing meters	July 1, 1980
<u>Phase V</u> Install meters at remaining services	October 1, 1981

The application requests authority to defer these completion dates until after the Commission authorizes MB to enter into a loan agreement with the State Department of Water Resources (DWR) under the provisions of the State Safe Drinking Water Bond Act of 1976. Applicant proposes to complete Phase I of the construction schedule within six months of Commission authorization, if four of the six months fall between June 1 through September 30, the permissible construction season in its service area located in the San Bernardino mountain range in the county of San Bernardino, and complete Phases II to V, inclusive, 12 months after Phase I.

MB claims its proposed rescheduling is needed due to Commission delay in authorizing it to establish a long-term line of credit with its owner, Ernest E. Hansen, and to an escalation of construction costs to \$625,000, which it estimates is necessary to rebuild its undersized and deteriorating water system.

In its application MB sought authority to assess 312 owners of vacant lots \$1,500 each and to provide for rate surcharges to amortize the balance of the loan over 50 years at a 6 percent interest rate.

Notices

On January 3, 1980 the Commission sent MB's president, John F. Rausch, notice of hearing which set the hearing in this matter for February 14 and 15, 1980. Rausch was directed to publish a hearing notice in a newspaper of general circulation in the area affected and to post a hearing notice(s) at least 10 days prior to the date of hearing and to mail notice to MB's customers at least five days prior to the date of hearing. In addition, Rausch was directed, by telephone, to mail hearing notices to the potentially affected owners of vacant lots in MB's service area. Rausch promptly contacted Administrative Law Judge Levander (ALJ) on the lot-owner notice requirement. The ALJ informed Rausch that since MB proposed to assess lot owners, they should be given an opportunity to be heard; he expected MB to cite authority for a water utility under Commission jurisdiction to assess lot owners; and absent such authority, the Commission was being asked to perform an idle act.

By letter dated February 7, 1980, Rausch requested that the February 14, 1980 hearing be delayed until DWR reached a decision on MB's loan application. He noted that MB was ranked No. 192 on DWR's loan application priority list.

The ALJ telephoned Rausch and Hansen and informed them that the request for a continuance was denied and that Rausch and Hansen should appear to protect their interests in this matter.

Hearings

Public hearings were held in the cities of San Bernardino on February 14 and Los Angeles on February 15, 1980. MB did not send any of the notices as directed. Rausch assumed his request for a hearing delay would be granted and argued that parties in other proceedings were granted delays on request. The ALJ stated that the request was untimely,^{3/} and that MB was subject to making the rate refunds provided in W-2393. The ALJ further requested MB's evidence on its progress in completing the ordered improvements, the securing of financing for these improvements, and its rationale in opposing a Commission-ordered refund, pursuant to W-2393. The matter was submitted on an interim basis to provide customer notice by sending letters to MB's customers requesting their comments on the disposition of this matter or to hold further hearings, and to provide for the receipt of late-filed Exhibit 5, a fall 1979 status report by MB on the improvement program, and late-filed Exhibit 7, a staff estimate of the time DWR and the State Health Department require to process an application for a DWR loan. Exhibit 5 has not been received.

Hansen testified that: (a) he acquired the MB system in a foreclosure action approved by the Commission; (b) MB's old rates were insufficient to pay its expenses; (c) he did not believe it possible to get an adequate return on an additional equity capital investment if used for the Phase I improvement; (d) he decided to

^{3/} MB's letter was mailed after the due date for posting and publication. The ALJ's copy of the letter was not received by him until the day before the hearing.

loan money to MB and sent a letter to the Commission dated September 27, 1978^{4/} requesting loan authorization; (e) he did not receive a loan authorization from the Commission for 11 months; (f) the increase to \$144 per flat rate customer per year (and a corresponding metered rate increase) authorized by W-2393 yielded revenues sufficient to cover MB's operating costs but would not be sufficient to repay his contemplated \$30,000 loan to MB;^{5/} (g) based on his experience in running MB for 11 months, he decided that it would not be possible for MB to repay a \$30,000 loan to him; (h) he decided to write off the loss of his MB investment by selling it to the Crestline-Lake Arrowhead Water Agency (CLAWA) for one dollar; (i) he later determined that his long-time associate, Rausch, who was a high level engineering manager for Lockheed California Company, could provide better, more economical service to MB's customers than CLAWA could; (j) he felt Rausch was competent to run the MB water system and therefore entered into a verbal agreement to sell MB to Rausch, and let Rausch operate MB as if he owned MB's stock; (k) Rausch has managed MB since July 1979 and Hansen does not interfere in MB's operations in any way; (l) there were approximately \$130-140 in MB's bank account when Rausch began managing the company; (m) this amount was reduced by a \$15 refund to correct a double billing; and (n) Rausch has paid all of MB's bills since June 1979 out of his own pocket, including payment to two part-time employees who handle routine maintenance and minor customer complaints.

^{4/} Inadvertently, this letter was not acknowledged. After a later call, a copy of another debt application was sent to MB to provide a format for its proposed application.

^{5/} D.90706 dated August 28, 1979 in A.58939, which was filed on June 15, 1979, authorized MB to utilize a \$30,000 line of credit from Hansen for capital improvements. The authority granted therein was never exercised. Hansen had previously advanced \$6,000 for meeting operating deficits.

Rausch's testimony attributes MB's woes to Commission failure to act promptly on MB's loan request and to notify MB of the availability of DWR loan funds earlier than it did. He contends that: (a) the improvement program ordered in W-2393 is deficient; (b) W-2509 shows Commission recognition of the unlikelihood of MB's ability to complete the Phase I improvement on time due to the delay in granting loan authority to MB; (c) MB is mandated to bring its system into compliance with General Order No. 103 standards; (d) a DWR loan is the only source of funds for making such improvements; and (e) the Commission should not order a rate reduction or refunds but should grant the requested postponement until after a DWR loan is approved.

Rausch plans to retire in two years, to establish permanent residence in or near MB's service area, and to provide more active part-time management for MB. He does not want to impose an unreasonable burden on MB's ratepayers, which include persons with limited incomes. However, he conceded that he would no longer seek to assess owners of undeveloped lots within the service area.

Rausch wants to obtain the tax depreciation benefits for facilities installed with a DWR loan. Rausch claims that: (a) DWR delayed in sending him a loan application package; (b) he has not yet filed an application for a DWR loan because he believed that MB could get a grant rather than a loan from DWR; (c) Hansen used the May 1979 annual revenue receipts to pay off debts incurred by the prior owner; and (d) he has managed MB since about July 1979 and has been paying MB's bills but has received no revenue from MB.

Rausch argues that: (a) there is a conspiracy to force MB to sell out to CLAWA as evidenced by Commission policy Resolution No. M-4708, by staff failure to discuss its conclusions with him before the hearing to work out a solution rather than submission of last-minute recommendations requiring MB to reduce its rates, to pay refunds, and to encourage MB's sale to CLAWA, and by staff failure to respond to Hansen's September 27, 1978 letter concerning a loan; (b) the Commission would not authorize a transfer of ownership of MB from Hansen to himself; (c) MB's current rates are needed to pay its part-time employee wages, water bills, and other expenses and cannot support costs associated with system improvements, as evidenced by the testimony of the general manager of CLAWA, Mr. Massey; (d) reversion to the prior rates would leave MB without the ability to pay its bills; and (e) MB has no funds for paying refunds to its customers.

Rausch believes that: (a) an engineering study prepared by a civil engineer with hydraulic experience is needed to design the system, and (b) he could build such a system for less cost than CLAWA by avoiding competitive bidding and paying for work done on a time and material basis or by entering into a joint venture with a contractor, by reducing or modifying the scope of the required improvements, and by building the improvements over five or six years.

Massey was called by the Commission staff. He testified that: (a) if offered, CLAWA would consider purchase of MB for \$1 subject to the willingness of MB's shareholders "to undergo assessment district proceedings to upgrade their system"; (b) CLAWA's maintenance costs for small deficient water systems were greater than its revenues; (c) based on CLAWA's recent experience in rebuilding eight small water systems in the vicinity of MB, he

made a rough estimate for rebuilding the MB system of \$560,000 and that Rausch's estimate of \$625,000 was not out of line at this time due to inflation and to the high costs of going through rocky soil (e.g., installation costs of approximately \$22 per lineal foot for six-inch main); and (d) his rough estimate of per customer maintenance and purchased water costs for MB's existing substandard system would be in the range of \$115 to \$132 per customer per year and operating costs would add approximately \$28 per customer per year.^{6/}

A staff research analyst, Mary J. Purcell, testified that: (a) MB failed to meet the construction schedule mandated in W-2393; (b) had MB built the Phase I facilities on time and made reasonable progress on subsequent phases, the staff would not have made its recommendations; (c) she is not seeking complete replacement of MB's system; (d) she made no study of the need for further improvements; (e) she made no study of MB's ability to continue to function if her recommended refund was paid out of company funds; and (f) she made no study of MB's ability to meet its expenses if rates were reduced to the prior level.

W-2393 states in part:

"THE COMMISSION FINDS that (1) the increased rates hereby authorized are justified and that the present rates are, for the future, unjust and unreasonable; (2) The increase in rates authorized herein is subject to refund to the customers and termination of the rate increase if Phase One of the Schedule of System Improvements is not completed and adequate progress toward completion of Phase Two is not reported on or before October 1, 1979; (3) In the event that the improvements are not completed as

^{6/} Twenty-eight dollars (\$28) is the difference between water billings of \$111 and \$83 for maintenance and purchased water costs per customer per year on the eight rebuilt systems.

specified herein, the rate increase hereby authorized shall terminate on the scheduled completion date of October 1, 1981 and the utility shall refund the increase to the customers; (4) The rates in effect immediately prior to the increase ordered herein shall apply thereafter and the utility shall immediately file appropriate tariffs in compliance with General Order No. 96-A."

* * *

"IT IS ORDERED that Meadowbrook Water Company, Inc. is authorized to make effective the revised rate schedules attached to Advice Letter No. 8 subject to findings 2, 3, 4, 5, 6 and 7 herein, and on the effective date herein to cancel the presently effective rate schedules for water service. The effective date of this resolution is the date hereof.

"IT IS FURTHER ORDERED that Meadowbrook Water Company, Inc. shall submit progress reports on the Schedule of System Improvements at six-month intervals, the first report to be submitted on or before March 1, 1979."

Findings 5, 6, and 7 of the above resolution relate to filing a rate reduction to flow through reduced ad valorem taxes. MB complied with these requirements.

A staff engineer, Arthur B. Jarrett, testified that if refunds were ordered, the refund per customer would be \$128.65 through April 30, 1980, an approximate total of \$19,000.

Staff counsel argues that: (a) MB's customers have been waiting for over six years for improved facilities; (b) Hansen indicated that improvements would be made; (c) the Commission issued a resolution ordering the improvements to be made; (d) the improvements have not been made; (e) if MB filed an application for a DWR loan today, it would take another year to process; (f) there would be a further delay in preparing a lengthy engineering study from DWR loan proceeds; and (g) it appears that there would be at least a two-year delay before anything was built.

Discussion

The Commission recognizes problems associated with the operation of small water utilities. It has adopted simplified accounting procedures, simplified annual reports, advice letter rate increase procedures, and encourages informal contacts between its staff and the utilities to assist small utilities in meeting their obligations. However, the Commission has limited resources and cannot guide every step undertaken by a utility such as MB. It is unfortunate that no response was sent to Hansen's September 27, 1978 letter. However, the Commission's Rules of Practice and Procedure set forth specific requirements for requesting authorization to enter into a long-term debt agreement. There was no unreasonable delay in authorizing the loan agreement once those requirements were met.

The provision of utility water service to MB's customers is a serious responsibility. Hansen agreed to make certain specific improvements on a timely basis as a condition for increasing MB's rates. Hansen did not meet that schedule. Hansen entered an

appearance as an interested party. As the sole shareholder of MB, he can designate its president, board members, and responsible operating officer, but he cannot walk away from his responsibility to see that the improvements are made. He cannot transfer ownership of the utility without Commission approval. The Commission looks to Hansen for compliance with its orders with respect to MB. The appearance of Hansen as an interested party is not conclusive of his status. Rogina v Mendocino State Hospital, et al. (1954) 53 CPUC 108, 111.

SS It would be desirable to improve MB's service by replacing all parts of the system not meeting the requirements of General Order No. 103, but MB ^{did} was not and does not have to carry out a replacement program of that magnitude absent an order to do so. Any replacements made by MB to implement W-2393 should meet the size, facility, and material requirements set forth in General Order No. 103.

The ALJ stated that: (a) MB does not have a DWR loan surcharge proposal before the Commission; (b) he would recommend that if MB proposed to replace its system, a registered civil engineer should prepare the design; (c) the billing surcharge needed to amortize a \$625,000 DWR loan to MB would be excessive (over \$280 per customer per year, based upon DWR's policy of limiting the loan amortization period to 35 years at a 5.5 percent interest rate; and (d) the time delay in adopting MB's proposal would be excessive. We concur with the ALJ's assessment.

SS In assessing the value of MB's service, we have considered that ^{MB serves in a resort area,} ~~the service area contains many resorts.~~ Many weekend residents could elect to haul water rather than to take service from MB, which would cost in excess of \$430 per year.

At the close of the hearing,^{7/} the ALJ advised Rausch that: (a) there would be a long delay before anything was done if MB's request was granted; (b) the Commission could act on the staff recommendations for a rate reduction and a refund; (c) the Commission could consider a request from MB to extend the time for compliance with specific requirements for construction of the ordered facilities with the owner's funds; or (d) the system could be transferred to CLAWA. He sought Rausch's comment on the latter proposals. Rausch then suggested waiting until he secured DWR approval for a smaller loan to make a partial system replacement. This proposal would not materially cut down on the processing delay. It is doubtful that DWR would fund a time and material loan. The reasonableness of charges incurred on a non-arm's-length contract would be an issue.

In Resolution No. M-4708 dated August 26, 1979 this Commission established a policy of supporting mergers of small water companies or of their conversion to public status.

^{7/} Due to a severe storm, Hansen was unable to fly from his isolated home to the hearing. Hansen's subsequent follow-up letter will be incorporated in the correspondence file in this proceeding.

Resolution No. M-4708 states in part:

"WHEREAS: The Commission finds that Class D water company operations tend to be inadequate for both owners and customers. The lack of economies of scale often results in a limited return on the owner's investment and poor service to the customer. Now, therefore, be it resolved that the Commission will:"

* * *

"(d) support and promote the conversion of unviable or marginal water utilities to public ownership or their mergers with more viable entities when opportunities arise and customer service is more likely to improve through such change than without it;

"(e) grant certificates for proposed water systems only when (1) need for the utility is demonstrated by applicant showing that no other entity is willing and able to serve the development and concrete present and/or future customer demand exists and (2) viability is demonstrated, ordinarily through the following tests:

- "- proposed revenues would be generated at a rate level not greatly exceeding that set for comparable service by other water purveyors in the general area;
- "- the utility would be self-sufficient, i.e., expenses would be supported without their being allocated between the proposed utility and other businesses;
- "- the applicant would have a reasonable opportunity to derive a fair return on its investment, comparable to what other water utilities are currently being granted."

This proceeding does not involve certification, but the criteria set forth in section (e) above do pertain to this proceeding.

The San Bernardino County Health Department (HD) has been receiving complaints from MB's customers, which are primarily low-pressure complaints, particularly during periods of heavy summer demand. HD supports a program to replace the undersized 24-inch diameter mains in MB's system, and it supports a takeover of MB and the formation of an assessment district by CLAWA. On that issue the staff report states:

"Interest in and Ability to Assume Ownership of Meadowbrook Water Company by CLAWA"

* * *

"12. In response to a written inquiry from M. J. Purcell, the CLAWA board indicated its interest in assuming ownership of Meadowbrook should the offer of last July be reactivated. R. Massey was interviewed to determine CLAWA's experience operating water companies. Massey stated that his agency sells wholesale water to 27 agencies and also owns and operates 8 small water companies, the latter of which serve approximately 760 customers. He stated that CLAWA received the first Safe Drinking Water Bond Act loan granted to a public agency which was used to improve the plant of the 8 water companies. The improvements are complete. He further stated that as Meadowbrook is contiguous to another of CLAWA's systems, Burnt Mill, it is highly possible that a physical merger of the two systems could occur which would be highly advantageous for the Meadowbrook customers due to the improved storage capacity and water pressure. Massey felt that with the physical improvements being made to the system which would allow the current restriction on connections to be lifted, the water system could grow to 365 customers. In terms of customer attitude about being owned and served by CLAWA, he cited the positive results of the questionnaire survey undertaken last summer. Of the 64 responses, representing a 30% return of the notices, 58 voted for CLAWA ownership and 6 voted against."

Thus, there is a public agency, CLAWA, willing to meet the need for water service in MB's service area. CLAWA would rebuild the system if an assessment district within MB's service area is formed. CLAWA is unwilling to burden customers or landowners within its existing service area (who formed their own improvement districts) with the cost of rebuilding MB's system.

The Commission does not have the authority nor the desire to negotiate with the San Bernardino County Fire Agency to provide for a separate and unnecessarily redundant fire protection facility for MB as suggested by MB.

With an improvement district, CLAWA would have the authority to spread the cost of improvements to lot owners through taxes. Public utility water companies do not have such authority. MB's construction costs for making improvements are far above average due to the need to trench in mountainous terrain during a limited construction season. The construction cost per customer would also be increased because of the low customer density within the service area.

As noted above, we would not authorize an annual surcharge of over \$280 per customer to amortize the cost of rebuilding the MB system. MB's proposal, which has not been properly formulated, is not viable.

We would encourage MB to accept CLAWA's conditions and sell its system not because of any ulterior motive on our part, but to permit the elimination of deficient water service to MB's customers, to provide for affordable rates for that service, and to assess landowners for improvements, which could result in the lifting of the restriction on further building in the service area which, in turn, could reduce the assessment tax rate.

MB bills annually on May 1. In the event that MB is transferred to CLAWA, any 1980 revenues net of MB's current operating expenses should be transferred to CLAWA or refunded to MB's customers within 15 days after the date of transfer. The transfer request should explain the basis of such operating expenses in detail.

If Hansen desires that MB continue in business, we expect MB to promptly file an amended application for funding the improvements ordered in W-2393, either with his funds or to submit a firm offer to provide the necessary funds from a qualified lending institution or investor. We would expect MB to complete Phase I and Phase II of the improvement program by September 30, 1980 and the balance of the improvements by September 30, 1981. Further rate relief could be considered after completion of the 1980 improvements and of the 1981 improvements. If Rausch and Hansen still desire to transfer MB under those terms, that request could be made in the amended application. This procedure would improve MB's service but at a substantial cost. It would not provide service and fire-flow benefits to MB's customers comparable to the CLAWA takeover.

If Hansen does not elect to proceed on either of these options, he should explain why he no longer desires or is capable of funding the construction program and he should be prepared to address the issues of rate reduction and of a plan for making refunds. However, in that context, we will consider, in detail, the cost of MB's operations from 1978^{8/} to date, and its failure to comply with W-2393.

If MB again fails to send notices as directed by the Commission or to comply with this order, the Commission will consider further sanctions under Division 1, Chapter 11 of the Public Utilities Code, VIOLATIONS.

We affirm the ALJ's ruling to not grant a continuance in this proceeding. MB did not offer any reasonable justification for a delay, its request was not made on a timely basis, and it had failed to comply with the Commission's order on giving notice.

^{8/} Pro forma summaries of earnings should reflect revenues, ad valorem taxes, and purchased water costs at present levels and at the level in effect prior to the effective date of W-2393, as adjusted to reflect the net offset increase authorized in Resolution No. W-2509.

We would ordinarily grant a timely request for a continuance from an applicant. However, in this proceeding, MB is not seeking affirmative relief. Its petition seeks a delay to prevent the triggering of an order to lower its rates and to pay refunds because of its failure to comply with the conditions it agreed to which were made part of the authorization for a rate increase.

Findings of Fact

1. W-2393 gave conditional authorization to MB to increase its rates. The conditions were that MB meet a five-phase schedule for constructing specific system improvements and that a reduction in ad valorem tax savings be flowed through to its customers.

2. W-2393 states in part: ". . . The increase in rates authorized herein is subject to refund to the customers and to termination of the rate increase if Phase One of the Schedule of System Improvements is not completed and adequate progress toward completion of Phase Two is not reported on or before October 1, 1979. . . ."

3. MB has not constructed any of these system improvements.

4. MB has flowed through the ad valorem tax reductions.

5. MB was authorized to borrow \$30,000 from its sole stockholder, Ernest E. Hansen, for construction purposes. That authority was not exercised.

6. MB has not filed its second and third progress reports as ordered in W-2393.

7. MB requested a continuance for making system improvements until after DWR agreed to loan it \$625,000 to rebuild its entire system.

8. MB has not filed a loan application with DWR. MB has not submitted any specific improvement plans.

9. The annual surcharge per customer, needed to service a \$625,000 DWR loan, of over \$280 would be excessive. MB's proposal would not be viable.

10. The time delay in securing a DWR loan and subsequent Commission approval for a lesser, as yet undefined, construction program would be excessive.

11. Hansen attempted to transfer ownership and control of MB to Rausch without the Commission approval required by Section 854 of the Public Utilities Code.

12. CLAWA has indicated its willingness to take over MB's system for one dollar and to rebuild the MB system to meet San Bernardino County standards. MB's system only has a nominal, one dollar value to CLAWA.

13. CLAWA's proposal would permit elimination of deficient water service to MB's customers, provide affordable rates for that service, and permit assessments of landowners for water system improvements.

14. Implementation of the five-phase improvement plan set forth in W-2393 would result in improved service to MB's customers, but would not provide service and fire-flow benefits comparable to CLAWA's proposal.

Conclusions of Law

1. MB has not met its obligations for constructing system improvements pursuant to W-2393. MB's rate increase was authorized contingent upon construction of those improvements on schedule. The rate increase was subject to revocation and to refund if MB failed to meet the construction schedule.

2. MB's owner, Hansen, is not merely an interested party in this proceeding. He has ultimate responsibility for implementation of Commission orders, including those related to the construction of MB's facilities and for its maintenance and operations.

3. Hansen's attempt to transfer ownership and control of MB to Rausch was without Commission approval and is void and of no effect.

4. MB's conceptual plan for obtaining and utilizing a DWR loan for system improvements is not viable.

5. MB failed to comply with a Commission order to give hearing notice by publication, by posting, and by delivery of notice to each of its customers and to the owners of vacant lots in its service area.

6. The ALJ was not required to grant MB's untimely request for a hearing continuance.

7. No further hearing should be required if MB elects to convey its system to CLAWA on the basis described herein. MB's system only has a nominal, one dollar value to CLAWA. Further hearing should be required if MB does not elect to adopt this option.

8. If a hearing is necessary, MB should be required to give notice of the adjourned hearing in this proceeding by publication, by posting, and by delivery of notice to each of its customers. Since MB no longer proposes to assess owners of vacant lots in its service area, no notice to those individuals is necessary. MB should be prepared to present evidence as discussed on page 16 herein.

9. As there is a need to promptly resolve the issues raised in this proceeding, this order should be effective the date of signature.

INTERIM ORDER

IT IS ORDERED that:

1. The petition of Meadowbrook Water Company, Inc. (MB) for an extension of time to construct facilities pursuant to Commission Resolution No. W-2393 (W-2393), after it has obtained a loan from the Department of Water Resources, is denied.

2. Within ten days after the effective date of this order, MB shall file an amendment to its application on one of the following bases:

- (a) A request for authorization to convey its system to the Crestline-Lake Arrowhead Water Agency, pursuant to an agreement or draft agreement with that agency, and for authorization to terminate its obligation to provide water service after the conveyance of the system has been completed. This request shall include a provision for transferring the excess unexpended net 1980 revenues from MB to Crestline-Lake Arrowhead Water Agency, or as a customer refund within 15 days after the date of transfer. The request shall explain the basis of expenditures from the 1980 revenues in detail as of the date of filing.
- (b) A plan to fund and construct the five-phase improvement plan set forth in W-2393 modified to provide for completion of Phases I and II by September 30, 1980 and for the completion of Phases III, IV, and V by September 30, 1981.

- (c) A filing (1) explaining why Ernest E. Hansen *and/or MB* is incapable or unwilling to proceed with the funding and construction of the improvements ordered in W-2393; (2) setting forth the summary of earnings data described in footnote 8 herein; (3) other information relevant to MB's failure to comply with the construction and reporting requirements of W-2393; and (4) other information relevant to the issues of rate reduction and refunds.

3. The attempted transfer of ownership and control of MB from its owner, Ernest E. Hansen, to John F. Rausch is void and of no effect.

4. MB shall file late-filed Exhibit 5 within ten days after the effective date of this order.

The effective date of this order is the date hereof.

Dated JUN 3 1980 , at San Francisco, California.

John E. Bryan
President
Richard D. Howell
Edward W. Gennick
Commissioners

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