

Decision No. 92921

APR 21 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND)
 ELECTRIC COMPANY AND CLIFFORD V.)
 HORN and KATHERYN C. HORN for an)
 order authorizing the former to)
 sell and convey to the latter)
 certain water facilities, known)
 as the Willits Water System, in)
 accordance with the terms of a)
 contract dated December 28, 1979.)
 (Water))

Application No. 59792
(Filed July 8, 1980)

O P I N I O N

This is an application by Pacific Gas and Electric Company (PG&E) seeking authority to transfer its Willits Water System to Clifford V. Horn and Katheryn C. Horn (Horns).

The application was filed on July 8, 1980. Each water system customer received a notice of the application. There have been no protests. The Commission staff (staff) investigated the proposed transfer. It filed reports on August 14, October 29, and December 16, 1980. Additional information was requested from PG&E and the Horns. In its final report of January 14, 1981, the staff indicated it has no objection to the Commission's granting the application.

Description of System

PG&E's Willits System consists of watershed lands, a storage reservoir, a water treatment plant, and a piped distribution network serving 1,800 customers. The service area includes part of the city of Willits and adjacent territories in Mendocino County. In 1978 the system served 1,797 customers with 234,500,000 gallons of treated water. Water is diverted from company-owned watershed lands that are a tributary to James Creek and impounded in Morris Lake,

located southwest of Willits. The water from Morris Lake is treated in the water treatment plant, and then flows by gravity, with the assistance of pumps during the peak-demand periods, through 18,000 feet of 18-inch and 14-inch transmission main to the distribution system. The capacity of the water treatment plant is about two million gallons per day.

PG&E purchased the system from California Public Service Company on December 31, 1944 under authorization granted by Decision No. 37571 dated December 19, 1944. It has been owned and operated by PG&E since that time. On July 12, 1955 Decisions Nos. 51675 and 51676 granted PG&E certificates of public convenience and necessity to exercise Franchise No. 347 (county of Mendocino) and Franchise No. 4 (city of Willits).

The Purchaser

Clifford V. Horn would manage the system. He has extensive experience in management and engineering. Horn has successfully operated several businesses for 29 years. He was a Professor of Business Management at the College of San Mateo. Horn has acted as a business consultant and has appeared on professional panels. He has engineered, developed, patented, and marketed several products. Horn owned the public utility Strawberry Heights Water Company at Echo Summit on Highway 50 until 1967, when it was sold to the Eldorado County Irrigation District. Horn has submitted a management plan for the system.

The Agreement

On December 28, 1979 PG&E and the Horns entered into an exchange agreement which requires PG&E to sell the system to the Horns for \$2.2 million, plus additions and betterments subsequently installed.

The Horns will convey to PG&E properties valued at \$1.7 million to apply against the purchase price. The difference between the purchase price of the system and the \$1.7 million of the Horns' property will be covered by a 25-year note with a variable interest rate. The variable rate is based on PG&E's return on equity most recently found reasonable by the Commission. The current variable interest rate is approximately 11.5%.

The application shows that the purchase price of the system is derived from the historical utility plant in service on December 31, 1979, less accrued depreciation, and additions and betterments as of June 1, 1980, as follows:

Historical utility plant in service	\$3,537,898
Accrued depreciation	(1,054,870)
Additions and betterments	<u>217,325</u>
Net utility plant	\$2,700,353

The Horns are placed on notice that future rate increases for the transferred water system will be based on a test-year rate base which reflects the historical net utility plant in service.

A pro forma operating results for 1981 and 1982 and cash flow statement submitted by the applicants are as follows:

PG&E - Willits Water System
Pro Forma Operating Results
For the Years 1981 & 1982

<u>Operating Revenue</u>	<u>1981</u>	<u>1982</u>
Metered Service	\$ 334,900	\$ 417,400
Private Protection Service	1,600	1,900
Accrued Timber Revenue	<u>172,700</u>	<u>172,700</u>
Total Operating Revenue	509,200	592,000
<u>Operating Expense</u>		
Salaries	19,100	20,600
Chemicals	13,200	14,300
Work Orders	30,900	33,300
Distribution	34,000	36,700
Purchased Power	16,000	17,300
Office Expense	10,600	11,400
Insurance	<u>14,000</u>	<u>15,100</u>
Total Operating Expenses	137,800	148,700
<u>Other Deductions</u>		
Depreciation	76,500	78,500
Ad Valorem Tax	43,100	46,500
Fish Planting Fee	<u>1,500</u>	<u>1,500</u>
Total Other Deductions	121,100	126,500
<u>Taxes Related to Income</u>		
State Franchise Tax	11,900	10,300
Federal Income Tax	32,100	25,800
Investment Tax Credit	<u>(16,500)</u>	<u>(20,000)</u>
Net Tax Related to Income	<u>27,500</u>	<u>16,100</u>
Total Expenses & Deductions	<u>286,400</u>	<u>291,300</u>
Net Income Before Interest	<u>222,800</u>	<u>300,700</u>
Interest Expense on PG&E Note	<u>126,500</u>	<u>119,600</u>
Net Income	<u><u>96,300</u></u>	<u><u>181,100</u></u>

(Red Figure)

PG&E - Willits Water System
Pro Forma Cash Flow Statement
For the Years 1981 & 1982

<u>Cash Flow</u>	<u>1981</u>	<u>1982</u>	<u>Total</u>
Net Income	\$ 96,300	\$181,700	\$278,000
Depreciation	76,500	78,500	155,000
Refund of Advances	(6,000)	(6,000)	(12,000)
Payment on PG&E Note	(44,000)	(44,000)	(88,000)
Accrued Timber Revenue	-	-	-
Net From Operations and Financing	122,800	210,200	333,000
Plant Additions	<u>(20,000)</u>	<u>(20,000)</u>	<u>(40,000)</u>
Net Positive Cash Flow	<u>\$102,800</u>	<u>\$190,200</u>	<u>\$293,000</u>

(Red Figure)

The Commission makes the following findings and conclusions.

Findings of Fact

1. A public hearing is not necessary in this matter.
2. The proposed transfer of the Willits Water System from PG&E to the Horns is not adverse to the public interest.
3. Since the Horns have been training personnel to take over the system for a period of time it would be in the public interest to make the ensuing order effective on the date of signature.

Conclusion of Law

The application should be granted as hereinafter provided.

O R D E R

IT IS ORDERED that:

1. On or before May 1, 1982, Pacific Gas and Electric Company may sell and transfer the water system (and other assets) referred to in the application to Clifford V. Horn and Katheryn C. Horn.
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 water system 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 system authorized to be transferred.
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, an annual report covering the operations of seller for the period commencing with the first day of the current year to and including the effective date of the transfer.

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.

The effective date of this order shall be thirty days after the effective date hereof.

Dated APR 21 1981, at San Francisco, California.

John E. Burton
President
Richard P. DeFelle
Leonard M. ...
Arthur ...
Prudence ...
Commissioners