

Decision 98-04-008 April 9, 1998

APR 9 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

R. N. Clayton to Transfer Control and Beverly
Brown to Acquire Control of Sonora Water
Company, Inc.

ORIGINAL
Application 97-09-051
(Filed September 29, 1997)

OPINION

Summary

This decision authorizes the transfer of control of Sonora Water Company, Inc., (Sonora) from Richard N. Clayton (Clayton) to Beverly Brown (Brown) through the sale of a majority of Sonora's issued and outstanding common stock, at a price not to exceed \$15,000.

Discussion

Sonora is a Class D regulated water utility serving approximately 100 metered connections in the Fairway Acres subdivision and vicinity near the communities of Sonora and Jamestown (Tuolumne County).

Sonora was incorporated in California in 1966 in connection with the development of Volponi Acres, a land subdivision project by Clayton and Claude A. Finck, Sonora's original stockholders. Volponi Acres is now commonly known as Fairway Acres. The Commission granted Sonora its Certificate of Public Convenience and Necessity as a water utility in 1967 by Decision 73178. Through subsequent transactions, Claude A. Finck's shares eventually found their way to Michaelyn Finck Mathy (Mathy) and Gerrit Malcolm (Malcolm), who today hold 108 shares each. Clayton, with 217 shares, holds controlling interest in the utility, and he and Mathy and Malcolm serve as its officers. There are no other

each having consented to the transfer to Brown. Both live out of the Sonora area, although Malcolm spends considerable time there on other business.

Notice of the Application appeared on the Commission's Daily Calendar of October 7, 1997. No protests or responses were received. Water Division initially had concerns related to the purchase price, but subsequently stated its support for an *ex parte* decision as explained below.

Sonora's last general rate increase was authorized by Resolution W-4042 in June, 1997. As part of the staff's investigation, Water Division's Auditing and Finance Branch conducted a financial audit that produced numerous accounting recommendations which the Commission subsequently adopted in W-4042. Clayton and Brown state that those requirements have now either been completed or will be completed with the filing of Sonora's 1997 annual report.

Sonora has no formal or informal complaints pending with the Commission.

The Purchase Agreement submitted with the Application provided for Brown to issue to Clayton a \$50,000 personal note secured by the 217 shares of Sonora stock and payable in monthly installments of \$500 or more. Interest would be at 9% per annum on the unpaid balance. Sonora's Test Year 1997 adopted rate base in the general rate case was \$31,240. Considering that Brown is purchasing 217 of 433 issued and outstanding common shares, a \$50,000 purchase price would extrapolate to a multiple of 3.19 times rate base. Water Division initially expressed reservations over the potential implications for future rates should the purchase price be above rate base. After discussing its concerns with Clayton, Clayton agreed to reduce the price to \$15,000, slightly below his pro rata share of rate base, whereupon Water Division wrote to the assigned Administrative Law Judge forwarding Clayton's letter and recommending that the transfer be approved *ex parte*. Water Division's January 8, 1998, letter with

2. Clayton and Brown have entered into the Purchase Agreement attached to the Application, under which Brown would acquire control of Sonora through the purchase of all of Clayton's stock for \$50,000.

3. A \$50,000 purchase price for 217 shares would have exceeded three times Clayton's pro rata share of Sonora's adopted Test Year 1997 rate base.

4. Clayton has reduced to \$15,000 the price at which he proposes to sell his stock to Brown.

5. In light of Clayton's having reduced the purchase price to or below his pro rata share of Test Year 1997 rate base, Water Division recommends the Commission authorize the transfer *ex parte*.

6. Setting the purchase price at or below Clayton's pro rata share of rate base eases any concern about the possible effect a purchase premium might have had on Brown's ability to repay her personal note while still meeting the utility's financing needs.

7. Clayton has satisfied the stock transfer restrictions in Sonora's Articles of Incorporation by offering his shares first to the corporation and other stockholders before agreeing to sell them to Brown.

8. Brown is well-qualified to assume control of the utility.

9. There is no known opposition to granting the authority requested.

Conclusions of Law

1. The proposed transfer of control is not adverse to the public interest.

2. A public hearing is not necessary.

3. The Application should be granted as set forth in the order that follows.

4. The order that follows should be made effective immediately so that the transfer may be consummated and Brown may assume responsibility for the system on a timely basis.

4. This proceeding is closed.

This order is effective today.

Dated April 9, 1998, at San Francisco, California.

RICHARD A. BILAS
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners