

Decision 98-11-018 November 5, 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of DOMINGUEZ WATER COMPANY (U-330-W), RUSSIAN RIVER MANAGEMENT COMPANY, d.b.a RANCHO DEL PARADISO WATER COMPANY (U-122-W) and PHILLIP, JANET, JESSE AND GAYE GUIDOTTI for an Ex Parte Order Authorizing the Acquisition of substantially all of the Utility Assets of RANCHO DEL PARADISO WATER COMPANY by DOMINGUEZ WATER COMPANY.

Application 98-03-020
(Filed March 2, 1998)

ORIGINAL

Application of DOMINGUEZ WATER COMPANY (U-330-W), RUSSIAN RIVER MANAGEMENT COMPANY, d.b.a. ARMSTRONG VALLEY WATER COMPANY (U-107-W) and PHILLIP, JANET, JESSE AND GAYE GUIDOTTI for an Ex Parte Order Authorizing the Acquisition of substantially all of the Utility Assets of ARMSTRONG VALLEY WATER COMPANY by DOMINGUEZ WATER COMPANY.

Application 98-03-021
(Filed March 2, 1998)

John Tootle, Attorney at Law, for Dominguez Water Company and Phil E. Guidotti, President for Armstrong Valley Water Company and Rancho Del Paradiso Water Company, applicants.

Peter G. Fairchild, Attorney at Law, for the Ratepayer Representation Branch of the Water Division, protestant.

OPINION

Background

Armstrong Valley Water Company

By Decision (D.) 41897 issued July 27, 1948, E.J. Guidotti was granted a certificate of public convenience and necessity (CPCN) to operate water service in the Armstrong Woods Valley and Lone Mountain Subdivision areas near Guerneville in Sonoma County, California. Guidotti operated the system doing business as Armstrong Valley Water Company (Armstrong) until age and failing health caused its sale in 1976. Today, Armstrong serves approximately 310 customers in Armstrong Valley and Noel Heights (South of Guerneville). Over the years, Armstrong incurred two SAFE Drinking Water Bond Act (SBWBA) loans from the Department of Water Resources (DWR). As of December 31, 1997, the total loan obligations were: \$81,541.58 (loan E 51034), and \$59,612.88 (loan E 51044).

Rancho Del Paradiso Water Company

By D.49405 issued December 8, 1953, E.J. Guidotti was granted a CPCN to operate a public utility water system in the Rancho Del Paradiso Subdivision near Duncan Hills in Sonoma County, California. Guidotti operated the system doing business as Rancho Del Paradiso Water Company (Rancho) until age and failing health caused its sale in 1976. Today, Rancho serves approximately 60 customers. Over the years, Rancho incurred a SDWBA loan from DWR. As of December 31, 1997, the total loan obligation was \$40,160.44 (loan E 51059).

Russian River Management Company

The Russian River Management Company (Russian River), a California corporation, was organized by E.J. Guidotti and Helen C. Guidotti (Shareholders). By D.86336 issued August 31, 1976, Russian River was

authorized to acquire both Armstrong and Rancho, and does business through the latter two utilities.

Phillip, Janet, Jesse and Gaye Guidotti

Today, Phillip, Janet, Jesse, and Gaye Guidotti (the Shareholders) own 100 percent of the issued common stock of Russian River, and thus, own and control Armstrong and Rancho.

Dominguez Water Corporation

Dominguez Water Corporation (Dominguez), a California corporation organized January 26, 1937, commenced public utility operations pursuant to authorization granted by D.32739 on January 16, 1941, as the successor to Dominguez Water Company which assertedly had operated as a water mutual since 1911, until its demise as the consequence of a bond default in 1936.

Today, Dominguez, a Class A water utility, is the wholly owned subsidiary of Dominguez Services Corporation, whose common stock has been quoted since about 1987 on the National Association of Securities Dealers Automated Quotations (NASDAQ).

Dominguez provides water service to approximately 32,000 customers in service areas which include most of the City of Carson, a large portion of the City of Torrance, a modern industrial subdivision in the City of Compton, a strip of Los Angeles County, and a commercial subdivision tract in the City of Los Angeles. In addition, Dominguez owns all of the outstanding capital stock of Antelope Valley Water Company serving approximately 1,250 customers in Northern Los Angeles County, as well as Kernville Domestic Water Company, Lakeland Water Company, and Arden Water Company, which collectively serve approximately 4,000 customers in the Lake Isabella area in southern Kern County.

Statement of Fact

Dominguez intends to expand its small water utility acquisition program to the Santa Rosa area of Sonoma County. It believes that it will be able to achieve certain operational efficiencies and economics of scale that would benefit the customers of such small utilities.

With Russian River and its Shareholders facing a need to finance substantial improvements in both Armstrong and Rancho, and with Phillip now desiring to retire with no other family member/shareholder willing to take over management of the systems after his retirement, the company and the shareholders decided to sell the utilities' assets and exit the utility business.

The Application

Accordingly, on January 22, 1998, Dominguez, Dominguez Services Corporation, Russian River, and the Shareholders entered into an Acquisition Agreement and Plan of Reorganization (the Agreement). By the terms of the Agreement, Dominguez will acquire all of the utility assets of both Armstrong and Rancho, and will also assume each utility's SDWBA loan obligations. In exchange, Dominguez will cause the transfer, at closing, to Armstrong of 11,541 shares of Dominguez Services Corporation common stock (valued at \$200,046), and to Rancho of 814 shares (valued at \$14,454). The respective purchase prices represent the adjusted closing price of the common stock (\$17.33) at the September 30, 1997 valuation date, multiplied by the adjusted number of shares to be delivered to each utility at the closings (Dominguez declared a three for two stock split effective January 1, 1998. Both the number of shares and the closing price at the valuation date were adjusted in accordance with this stock split).

Armstrong

Armstrong's assets were divided between "land and landrights" and "company funded plant." The applicants did an asset valuation analysis, including both a market appraisal of the real property, and a replacement cost analysis (done by Donald R. Howard Consulting Engineers) of all the company funded plant assets.

The application set forth the book value of the rate base assets at \$160,476, with applicant's appraisal of fair market valued at \$196,090, and reproduction cost new less depreciation (RCNLD) at \$208,064, for Armstrong. The difference, or "market differential," between book value and fair market value, under this appraisal, was \$35,614, or approximately 22% of book value.

The applicants also performed a rate impact analysis to determine the net impact were the market value to be applied with reference to Armstrong's annual revenue requirements. Including SDWBA's surcharge, the analysis showed a slight 1.3% decrease in annual revenue requirements. Dominguez further stated that it would not seek any change in Armstrong's current rates or tariffs until after 1999. Dominguez would make certain improvements related to surface water treatment, and complete a Watershed Sanitary Survey to bring the Noel Heights Area into compliance with the State's Surface Water Filtration and Disinfection Treatment requirements. It would also add at least 30,000 gallons storage to the main system.

Rancho

For Rancho, the applicants did an asset valuation analysis, including a replacement cost analysis (done by Donald R. Howard Consulting Engineers), of all the company funded plant assets.

The application sets forth the book value of the ratebase assets at \$8,957, with a fair market appraisal of \$13,699, and RCNLD valuation of \$21,919. The "market differential" between book value and fair market value, under this appraisal was approximately 53% of book value.

The applicants also performed a rate impact analysis to determine the net impact were the market value to be applied with reference to Rancho's annual revenue requirements. Including SDWBA's surcharge, the analysis showed a slight 0.05% decrease in annual revenue requirements. Here again, Dominguez stated it would not seek any changes in Rancho's current rates or tariffs until after 1999. Dominguez would make certain improvements related to surface water treatment, and complete a Watershed Sanitary Survey to bring the system into compliance with the State's Surface Water Filtration and Disinfection Treatment requirements.

As Dominguez is capable of financing all future improvements needed to maintain and upgrade the two systems, and brings a lower cost of capital under its equity structure as a Class A utility, Dominguez believes the transactions will benefit the customers of both Armstrong and Rancho.

Dominguez believes that adoption of the \$196,090 "fair market valuation for Armstrong, and \$13,688 valuation for Rancho, for the respective rate bases and other ratesetting purposes is in accordance with the provisions of the Public Water System Investment and Consolidation Act of 1997.

The applicants requested that the Commission issue its order authorizing the respective sales and transfer ex parte.

Pursuant to provisions of Rule 6.1 of the Commission's Rules of Practice and Procedure, by Commission Resolution ALJ 176-2989 issued March 26, 1998, the proceeding was preliminarily designated as "ratemaking" with the probability that no hearing would be necessary.

Notice and Protest

By letters mailed March 31, 1998, Armstrong and Rancho customers were informed of the pending transactions. Notices also appeared in the Commission's Daily Calendar of March 18, 1998. There were no responses as to Armstrong, and one response for Rancho; the latter seeking more information about Dominguez, and expressing apprehension regarding rates after 1999.

On March 31, 1998, the Ratepayers Representation Branch of the Water Division (RRB) filed a formal protest in each application, asking for a hearing concerning the effect of the proposed acquisition on the rates charged customers.

Hearings

A prehearing conference was held May 8, 1998 before Assigned Commissioner Henry M. Duque and Administrative Law Judge (ALJ) John B. Weiss, following which the Commissioner on May 15, 1998 issued a Scoping Memo and Ruling setting the proceedings for hearing and designating ALJ Weiss as the principal hearing officer for the proceedings. It was agreed the proceedings would be consolidated for decision.

After a protest was filed, the assigned Commissioner at the Prehearing Conference determined, and in his Scoping Memo ruled, that a hearing was required.

As directed by the Commissioner's Scoping Memo and Ruling, on June 19, 1998, RRB issued its consolidated report on the applications. RRB's differences with the appraisals of both applications, centered upon the applicants' assumptions of very long lives of plant that each utility has been depreciating over shorter periods. This inflated the RCNLD valuation under RRB's view; for Armstrong \$208,064 vs. RRB's \$81,607; for Rancho \$21,919 vs. RRB's \$4,797. But under the applicant's appraisal values, for Armstrong the fair market value of \$196,090 did not exceed the RCNLD value of \$208,064; for

Rancho the fair market value of \$13,688 did not exceed the RCNLD value of \$21,919.

RRB's recommendation in its report, based upon its estimated cost of future operations under Dominguez as contrasted with Armstrong and Rancho operations, was to approve the acquisitions, but to require retention of the present book value rate base of \$160,476 for Armstrong and \$8,957 for Rancho. RRB would also withhold approval until Dominguez furnished evidence of compliance with Health and Safety (H&S) Code § 116540(a)¹

Prior to the evidentiary hearing, the parties informally advised the ALJ that they had basically reached a Settlement, but that a memorialization for each utility could not be completed in time for the hearing. Essentially, the Settlement provided that, consonant with PU Code § 2720, Dominguez could record as rate base for Armstrong, \$175,000 based upon a revised appraisal from \$178,540; and for Rancho could record as rate base \$13,000, also based upon a revised appraisal. It was further agreed that Dominguez should be authorized to assume the SDWBA loan obligations of both Armstrong and Rancho, and that in view of a DHS letter sent to Dominguez on July 10, 1998 essentially meeting the H&S Code § 116540(a) requirements, acquisition authority should not be withheld on that account for either acquisition.²

¹ H&S Code § 116540 (a) provides:

"No public water system that was not in existence on January 1, 1998 shall be granted a permit unless the system demonstrates to the department that the water supplier possesses adequate financial, managerial, and technical capability to assure the delivery of pure, wholesome, and potable drinking water. This section shall also apply to any change of ownership of a public water system that occurs after January 1, 1998."

² The DHS July 10, 1998 letter addressing the compliance of Armstrong and Rancho with the new statutory requirements was addressed prematurely to "Redwood Valley

Footnote continued on next page

The duly noticed hearing scheduled for July 15, 1998 in San Francisco was advanced one day to July 14, 1998 for the convenience of the parties.³ At that hearing the Staff's June 19, 1998 report and a copy of the DHS letter were received into evidence. Commissioner Duque was present for the consolidated hearing. The two applications were submitted for decision July 15, 1998, with provision for the formally signed Settlement to follow as a late filed Exhibit No. 3 in each proceeding. On August 6, 1998, Settlement Exhibits in each proceeding were filed.

Discussion

PU Code § 851 et seq. require prior Commission authorization for the sale and transfer of the property or of control of a public utility. This is because it is the function of the Commission to protect the public interest, to prevent impairment of the public service by a transfer into the hands with parties incapable of rendering adequate service at reasonable rates or upon terms which would produce the same undesirable result (So. Cal. Mountain Water Co. (1912) 1 CRC 520).

Dominguez has extensive small water system experience, currently owning and operating ten small systems in the Kern River Valley, and four small systems in Antelope Valley. Under Dominguez, apart from achievement of operational efficiencies and economies of scale, DHS connection moratoriums previously in effect under prior system owners have been lifted. Dominguez

Water Company"; the new subsidiary Dominguez is in process of organizing to own and manage acquisitions in the Sonoma County such as Armstrong and Rancho.

³ The proceeding was also called on July 19, 1998 as noticed and scheduled, with Commissioner Duque present. No additional parties appearing, the proceeding was submitted.

offers more favorable debt terms through its access to capital markets than are available to small independent systems. It is our conclusion that Dominguez has the financial, managerial, and technical capability to successfully operate the Armstrong and Rancho systems with definite benefits to the customers of each. Dominguez plans to increase the Armstrong storage capacity by 30,000 gallons and to make other improvements to bring the system into compliance with State requirements. In addition, it will begin replacement of undersized mains. For Rancho, Dominguez plans to drill a new well in 1999 away from surface water. These additions will all benefit the customers.

In recognition of the capital investment problems faced by small water utilities in meeting needs to replace or upgrade their systems to meet safe drinking water laws and to provide adequate fire flow, the Legislature last year passed the Public Water Systems Investment and Consolidation Act of 1997.⁴ The act provides incentive to larger water utilities to acquire smaller systems. The Act provides that the Commission shall use "fair market value" as the standard to establish the rate base value of an acquired distribution system, and for ratesetting purposes (PU Code § 2720(a)).⁵ However, if the "fair market value"

⁴ The Act was codified as PU Code §§ 2718 et seq.

⁵ Pursuant to PU Code § 2720 (a)(1), "fair market value shall have the same meaning as set forth in Civil Procedure Code § 1263.320:

"(a) The fair market value of the property taken is the highest price on the date of valuation that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for so doing, nor obliged to sell, and a buyer, being ready, willing, and able to buy but under no particular necessity for so doing, each dealing with the other with full knowledge of all the uses and purposes for which the property is reasonably adaptable and available.

Footnote continued on next page

exceeds RCNLD, the difference in the rate base may still be included for ratesetting purposes if the Commission finds that the additional amounts are fair and reasonable as set forth in PU Code § 2720(b).

In the present two proceedings, the June 19, 1998 RRB Report took exception to the RCNLD appraisals submitted by Dominguez, Armstrong, and Rancho in their applications. Use of RRB's RCNLD appraisals would have resulted in the "fair market values" exceeding the RCNLD appraisals, thereby invoking PU Code § 2720(b). In both instances, RRB and the applicants revisited their initial appraisals of both "fair market value" and RCNLD. By the Settlement the parties have agreed upon new appraisals. For Armstrong, the "fair market value" as revised is \$175,000, which is less than the parties' revised RCNLD appraisal of \$178,540. For Rancho, the "fair market value" as revised is \$13,000, which is less than the parties' revised RCNLD appraisal of \$17,322. The resolution proposed by the Settlement serves to obviate any necessity to resort to the PU Code § 2720(b) judgements, and permits Dominguez to record as rate base for Armstrong \$175,000, and for Rancho \$13,000. In that these revisions were based upon further review of the data furnished by applicants and RRB, and after on-site inspections by RRB, the revised appraisals, using depreciation in accordance with our Standard Practice U-4, are accepted.

While there were no specifically noticed settlement conferences, the four parties proceeded informally before reaching a resolution of their differences. The parties having joined in the offered Settlements, as permitted by Rule 51.10 where there would be no impairment of the public interest, Rule 51.1(b) which

"(b) The fair market value of property taken for which there is no relevant, comparable market is its value on the date of valuation as determined by any method of valuation that is just and equitable."

requires at least one noticed settlement conference may be, and under these circumstances, should be waived.

The Settlements set forth factual and legal considerations adequate to advise the Commission of their scope and of the grounds permitting adoption. The benefit to the ratepayers of both Armstrong and Rancho not only for the present, but also for the future, are evident. In light of the entire record. We find the Settlements to be consistent with law and the public interest. In addition, in that the Settlements command the sponsorship of all parties to each proceeding, each party being represented either by legal counsel or competent corporate officers; the Settlements' terms do not offend statutory provisions or prior Commission decisions; and sufficient information is conveyed by each Settlement to allow the Commission to discharge its regulatory obligations with regard to the matters covered in the Settlements. Thus, the Settlements satisfy the requirements for "all party" settlements as set forth in Re San Diego Gas and Electric Company General Rate Case (1992) 46 CPUC 2d 538, 550. Accordingly, the Settlements are accepted by the Commission.

While the applications in both proceedings and representations during hearing represent that upon Dominguez's acquisition of the assets of Armstrong and Rancho, Dominguez will have completed the formation of a new subsidiary, Redwood Valley Water Company (Redwood Valley). At such time Dominguez would use Redwood Valley to purchase, operate, and manage the Armstrong and Rancho utility assets. At no time has Redwood Valley been in any way qualified before the Commission. Until this qualification is accomplished pursuant to provisions of PU Code § 851 et seq., any sale, purchase, assignment or transfer of utility assets or control of Armstrong and Rancho assets or operations cannot be consummated.

Comments on the Proposed Decision of the Administrative Law Judge

As provided by PU Code § 311, the Proposed Decision of ALJ Weiss was served on the parties to this decision. To allow the Commission to issue its decision more quickly, the parties by letter dated October 8, 1998, waived the 20-day and 5-day periods for comments and replies to comments and the 30-day waiting period prescribed by the Commission's Rule 722.2 and PU Code § 311(d), and agreed to file their only comments, if there were to be comments, within five days of the October 20, 1998 mailing date of the Proposed Decision. No comments were filed.

Findings of Fact

1. Armstrong is a public utility water company providing water service in the areas known as Armstrong Valley and Noel Heights near Guerneville in Sonoma County.
2. Armstrong is wholly owned by Russian River.
3. Rancho is a public utility water company providing water service in the town of Duncan Hills in Sonoma County.
4. Russian River is a California corporation with 100% of its issued stock owned by the Shareholders (Phillip, Janet, Jesse, and Gaye Guidotti).
5. Dominguez, a wholly owned subsidiary of Dominguez Services Corporation, is a Class A water public utility providing water service directly and through wholly owned subsidiary small water companies, to approximately 37,250 customers in several areas of California.
6. Dominguez's common stock is quoted on NASDAQ.
7. Dominguez is seeking to expand its operations into Sonoma County, California, through acquisition of small local water utilities to be under a new subsidiary, Redwood Valley Water Company.

8. The Shareholders, facing the necessity of substantial investments for capital improvements to Armstrong and Rancho, and with Phillip Guidotti desirous of retiring but with no family/shareholder interested in managing either utility, are desirous of selling both utility's assets.

9. Armstrong and Rancho, as of January 21, 1998, respectfully each have SDWBA loan obligation balances of \$136,118.09 and \$38,727.52.

10. On January 22, 1998, Dominguez, Dominguez Services Corporation, Russian River, and the Shareholders entered into an Acquisition Agreement and Plan of Reorganization.

11. By this Agreement Dominguez will acquire all the utility assets of Armstrong and Rancho and will assume the SDWBA loan obligations of the latter in exchange for Dominguez causing the issue of Dominguez Services Corporation common stock to Armstrong and Rancho.

12. In arms length negotiations between willing parties with no party under an obligation to act, the parties appraised and valued land and company funded plant in accordance with the standard of "fair market value" as of September 30, 1997, resulting in an asset valuation of \$196,090 for Armstrong and \$13,688 for Rancho.

13. Using the closing NASDAQ quotation of Dominguez common stock as of the same September 30, 1997 valuation date, the parties calculated the number of Dominguez Services Corporation shares, 11,541 with a valuation of \$200,046 applicable to Armstrong, and 834 shares with a valuation of \$14,454 applicable to Rancho, that would be issued to Armstrong and Rancho in consideration for the sale and transfer of the latter two utility's assets to Dominguez.

14. The agreements define Armstrong and Rancho non-rate based assets as "SDWBA FUNDED PLANT", and Dominguez intends to record these non-rate based assets at their book value.

15. RRB protested the applications, and as of its June 19, 1998 consolidated report determined upon \$81,607 and \$4,797 as the appropriate RCNLD appraisals for Armstrong and Rancho assets as opposed to the latter's respective \$208,064 and \$21,919 appraisals.

16. RRB did not contest the purchase prices to be paid by Dominguez to Armstrong and Rancho; its concern was with the proposed "fair market value" rate base valuations sought, and rate impact upon the customers.

17. Applicants also submitted rate impact analysis for each application, using "fair market" valuations which showed that the rate impact, when SDWBA's surcharges were included, would result in insignificant impacts.

18. Dominguez asserts that under its ownership, because of lower financing costs due to its equity structure as a Class A utility, efficiencies of operation and economies of scale it can bring to the Armstrong and Rancho systems, the adoption of its proposed "fair market valuations" for the respective utility's rate bases would produce minimal impact on rates while bringing benefits to Armstrong and Rancho customers.

19. Dominguez would add improvements to both the Armstrong and Rancho systems after takeover.

20. The parties negotiated on their appraisal, revising both the "fair market values" and the RCNLD appraisals, and subsequently entered into all party Settlements which recommend Commission approval of the applications consistent with lower rate base recommendations in the Settlements.

21. The proposed sale and transfer of Armstrong and Rancho utility assets to Dominguez would be cost effective on a revenue requirements basis, as contrasted to continued operation by Russian River, when continued Russian River operation would include the capital investments needed to bring each utility's system to General Order and DHS standards.

22. The proposed Settlement is reasonable, consistent with law, and is in the public interest, meeting as it does the requirements of Rule 51.1 of our Rules of Practice and Procedure, and the guidelines set forth in Re San Diego Gas and Electric (supra).

23. As Dominguez, Russian River, and RRB were the only parties of record in both captioned proceedings, there was no impairment to the public interest in their not having convened at least one noticed settlement conference before signing and submitting their settlements, and as provided by Rule 51.10, as all joined in the resulting Settlements submitted, the requirement may be waived.

24. Dominguez has the financial, managerial, and technical capability to operate the Armstrong and Rancho systems.

25. The July 10, 1998 letter from DHS indicates that Dominguez has satisfied that agency's requirements under its H & S Code so as to pose no impediment to Commission consent to the proposed sales and transfers of Armstrong and Rancho.

26. Dominguez should be authorized to assume the obligations of Armstrong and Rancho under the latter's SDWBA loans for operation, maintenance; and repairs of the SDWBA loan funded assets; collections of the respective surcharges, and remittances as required pursuant to the loan agreements.

27. Dominguez will seek no general rate adjustments relative to either the Armstrong or Rancho systems until after 1999.

28. Armstrong and Rancho are in need of system improvements immediately. The improvements cannot be made until the proposed acquisition is completed.

29. In that the parties in the captioned proceedings are the same; the issues are substantially the same; the proceedings were consolidated for hearing for the convenience of the parties; and that the settlements are similar, to avoid multiple

decisions and consequent costs the decisions in each proceedings should also be consolidated.

Conclusions of Law

1. The settlements submitted by the parties in each proceeding should be adopted by the Commission.

2. Dominguez should be authorized to purchase and acquire, and Russian River dba Armstrong and Ranchos, and Phillip, Janet, Jesse and Gaye Guidotti, should be authorized to sell and transfer the rate based Armstrong land and company funded assets, and the rate based Rancho company funded assets as set forth in their respective applications; and the Armstrong and Rancho Certificates of Public Convenience and Necessity should be transferred with the assets to Dominguez.

3. The "fair market value" of Armstrong's land and company funded assets, collectively set at \$175,000 in the Armstrong Settlement, should be adopted pursuant to provisions of PU Code § 2720 for rate base and ratesetting provisions, upon Dominguez's acquisition of these assets.

4. The "fair market value" of rancho's company funded assets set at \$13,000 in the Rancho Settlement, should be adopted pursuant to provisions of PU Code § 2720 for rate base and ratesetting provisions, upon Dominguez's acquisition of these assets.

5. Dominguez should be authorized to assume the SDWBA loan obligations of Armstrong and Rancho upon Dominguez's acquisition of the latters' assets, and in each instance the SDWBA funded plant assets should be recorded on Dominguez's books at their respective book values.

6. Upon remittance by Russian River dba Armstrong and Ranchos to the Commission of the Public Utilities Commission Reimbursement Fees collected to the effective date of the sales and transfers of the Armstrong and Rancho assets,

Russian River and Phillip, Janet, Jesse and Gaye Guidotti should be relieved of their public utility water obligations.

7. Redwood Valley in no way having been qualified before the Commission pursuant to provisions of PU Code § 851, or otherwise, no sale, purchase, assignment, or transfer or any of the assets or control of either Armstrong or Rancho assets or operations to Redwood Valley can be consummated.

8. These proceedings should be closed.

O R D E R

IT IS ORDERED that:

1. Within 90 days after the effective date of this order, Russian River Management Company (Russian River) dba Armstrong Valley Water Company (Armstrong) and Rancho Del Paradiso (Rancho), and Phillip, Janet, Jesse and Gaye Guidotti (the shareholders) may sell and transfer to Dominguez Water Company (Dominguez), and Dominguez may purchase and acquire, the rate based land and company funded plant assets of Armstrong and the rate based company funded plant assets of Rancho as provided in Application (A.) 98-03-021 and A.98-03-020, and Dominguez is authorized to assume the Safe Drinking Water Bond Act (SDWBA) obligations of both Armstrong and Rancho relative to the non-rate based plant assets of each funded by SDWBA loans.

2. Upon acquisition by Dominguez pursuant to this order, the rate base value of the Armstrong land and company funded plant assets, and the rate base values of the Rancho company funded plant assets, will be set at \$175,000 and \$13,000 respectively, and as provided by PU Code § 2720, those valuations will apply for the future for both ratesetting and all other related purposes.

3. Upon their acquisition by Dominguez, the Armstrong and Rancho SDWBA funded assets will be recorded at book value.

4. The Settlements submitted by the parties' to these two proceedings are adopted by the Commission and are appended to this order as Appendix A.

5. Within 10 days after the actual sales and transfers, Dominguez shall notify the Commission of the dates on which the sales and transfers were consummated. True copies of the instruments effecting the sales and transfers shall be attached to the written notifications.

6. Upon completion of the sales and transfers, and remittance to the Commission of the Public Utilities Commission Reimbursement Fees collected to the effective dates of the sales and transfers, Russian River and Phillip, Janet, Jesse and Gaye Guidotti shall stand relieved of their public utility water obligations, and their certificates of Public Convenience and Necessity shall be transferred to Dominguez.

7. The assigned Commissioner's determination in the Scoping Memo and Ruling that a hearing was necessary is affirmed.

8. A.98-03-020 and A.98-03-021 are closed.

This order is effective today.

Dated November 5, 1998, at San Francisco, California.

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

A.98-03-020, A.98-03-021 ALJ/JBW/avs

APPENDIX A

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
DOMINGUEZ WATER COMPANY.)
RUSSIAN RIVER MANAGEMENT)
COMPANY (d.b.a. RANCHO DEL)
PARADISO WATER COMPANY) and)
PHILLIP, JANET, JESSE AND GAYE)
GUIDOTTI for an Ex Parte Order Authorizing)
the Acquisition of substantially all of the)
Utility Assets of RANCHO DEL PARADISO)
WATER COMPANY by DOMINGUEZ)
WATER COMPANY)
_____)

Application 98-03-020

FILED
PUBLIC UTILITIES COMMISSION

AUG 06 1998

SAN FRANCISCO OFFICE
NO. _____

SETTLEMENT

1.1 This Settlement resolves all issues in the matter of the application ("Application") of Dominguez Water Company ("Dominguez") to acquire all of the assets of Rancho del Paradiso Water Company ("Rancho del Paradiso"). The parties to this Settlement are Dominguez, Rancho del Paradiso, and the Ratepayer Representation Branch ("RRB") of the Water Division, collectively referred to as the "Parties." They are the only parties in this proceeding.

1.2 The Application also requests authority for Dominguez to assume Rancho del Paradiso's obligations under the Safe Drinking Water Bond Act (SDWBA), pursuant to Contract No. E51044 with the California Department of Water Resources.

1.3 In addition, the Application requests authority for Dominguez to record as ratebase for Rancho del Paradiso the price of \$13,688, based on an appraisal of Replacement Cost New Less Depreciation in the amount of \$21,919.

1.4 On completion of its review of the Application, RRB submitted a Report on the Proposed Acquisitions by Dominguez Water Company, dated June 19, 1998, hereinafter referred to as the "Report." The recommendations of the Report are summarized below:

- (a) Based on the estimated cost of future operations, Dominguez should be authorized to acquire the assets of Rancho del Paradiso.
- (b) Based on RRB's lower appraisal of Rancho del Paradiso, Dominguez should be authorized to record as ratebase the present ratebase of \$8,987, not the price of \$13,688 requested by the Application.
- (c) Authority for Dominguez to acquire the assets of Rancho del Paradiso should be withheld until Dominguez complies with Section 116540 (a) of the California Health and Safety Code, which requires that new operators demonstrate to the California Department of Health Services ("DHS") that they possess adequate financial, managerial, and technical capability to provide proper service.

1.5 Subsequently, the Parties held a meeting in Los Angeles to discuss the following issues raised by the Report: (a) the difference between the appraisals of Dominguez and RRB and (b) the matter of compliance with DHS's requirements. This meeting resulted in the successful resolution of all issues.

1.6 The Parties have agreed that authority for Dominguez to acquire all of the assets of Rancho del Paradiso should not be withheld in view of the letter DHS sent to Dominguez on July 10, 1998, stating that Dominguez has clearly demonstrated to DHS that it possesses adequate financial, managerial, and technical capability to operate Rancho del Paradiso and that DHS will issue an amended Water Supply Permit to Dominguez once the California Public Utilities Commission ("Commission") has approved Dominguez' acquisition of Rancho del Paradiso.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document entitled **SETTLEMENT** to the parties of record in this proceeding by mailing by first-class mail a copy thereof properly addressed to each party.

Dated at San Francisco, California, this 6th day of August, 1998.

/s/ ALBERT HILL

Albert Hill

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
DOMINGUEZ WATER COMPANY,)
RUSSIAN RIVER MANAGEMENT)
COMPANY (d.b.a. ARMSTRONG VALLEY)
WATER COMPANY) and PHILLIP, JANET,)
JESSE AND GAYE GUIDOTTI for an Ex)
Parte Order Authorizing the Acquisition of)
substantially all of the Utility Assets of)
ARMSTRONG VALLEY WATER)
COMPANY by DOMINGUEZ WATER)
COMPANY)

Application 98-03-021

FILED
PUBLIC UTILITIES COMMISSION

AUG 06 1998

SAN FRANCISCO OFFICE
NO. _____

SETTLEMENT

1.1 This Settlement resolves all issues in the matter of the application ("Application") of Dominguez Water Company ("Dominguez") to acquire all of the assets of Armstrong Valley Water Company ("Armstrong Valley"). The parties to this Settlement are Dominguez, Armstrong Valley, and the Ratepayer Representation Branch ("RRB") of the Water Division, collectively referred to as the "Parties." They are the only parties in this proceeding.

1.2 The Application also requests authority for Dominguez to assume Armstrong Valley's obligations under the Safe Drinking Water Bond Act (SDWBA), pursuant to its Contract Nos. E51034 and E51059 with the California Department of Water Resources.

1.3 In addition, the Application requests authority for Dominguez to record as ratebase for Armstrong Valley the price of \$196,090, based on an appraisal of Replacement Cost New Less Depreciation in the amount of \$208,064.

1.4 On completion of its review of the Application, RRB submitted a Report on the Proposed Acquisitions by Dominguez Water Company, dated June 19, 1998, hereinafter referred to as the "Report." The recommendations of the Report are summarized below:

- (a) Based on the estimated cost of future operations, Dominguez should be authorized to acquire the assets of Armstrong Valley.
- (b) Based on RRB's lower appraisal of Armstrong Valley, Dominguez should be authorized to record as ratebase the present ratebase of \$160,476, not the price of \$196,090 requested by the Application.
- (c) Authority for Dominguez to acquire the assets of Armstrong Valley should be withheld until Dominguez complies with Section 116540 (a) of the California Health and Safety Code, which requires that new operators demonstrate to the California Department of Health Services ("DHS") that they possess adequate financial, managerial, and technical capability to provide proper service.

1.5 Subsequently, the Parties held a meeting in Los Angeles to discuss the following issues raised by the Report: (a) the difference between the appraisals of Dominguez and RRB and (b) the matter of compliance with DHS's requirements. This meeting resulted in the successful resolution of all issues.

1.6 The Parties have agreed that authority for Dominguez to acquire all of the assets of Armstrong Valley should not be withheld in view of the letter DHS sent to Dominguez on July 10, 1998, stating that Dominguez has clearly demonstrated to DHS that it possesses adequate financial, managerial, and technical capability to operate Armstrong Valley and that DHS will issue an amended Water Supply Permit to

Dominguez once the California Public Utilities Commission ("Commission") has approved Dominguez' acquisition of Armstrong Valley.

1.7 The Parties further agree that Dominguez should be authorized to assume Armstrong Valley's obligations under SDWBA because Dominguez will be operating the assets constructed with funds obtained under SDWBA and assuming all obligations to maintain and repair those assets as agreed to by Armstrong Valley.

1.8 Finally, the Parties agree that, pursuant to Section 2720 of the California Public Utilities Code, Dominguez should be authorized to record as ratebase for Armstrong Valley \$175,000, based on a revised appraisal of \$178,540. After further review of the data used by both RRB and Dominguez and an on-site inspection of Armstrong Valley's facilities by RRB, the Parties agreed to revise the appraisal, using depreciation in accordance with the Commission's Standard Practice U-4.

By: Peter G. Fairchild

PETER G. FAIRCHILD
Principal Counsel
Ratepayer Representation Branch
of the Water Division

Date: 8/5/98

By: C.M. Alario

C.G. ALARIO
Regulatory Affairs Manager
Dominguez Water Company

Date: 8/4/98

By: Philip Guidotti

PHILIP GUIDOTTI
President
Armstrong Valley Water Company

Date: 8/4/98

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document entitled **SETTLEMENT** to the parties of record in this proceeding by mailing by first-class mail a copy thereof properly addressed to each party.

Dated at San Francisco, California, this 6th day of August, 1998.

/s/ ALBERT HILL

Albert Hill

(END OF APPENDIX A)