

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint Application of Ramona Water Company (U380W) to sell, and Western Water Conservation, a California Public Benefit Corporation, to buy, the water system of Ramona Water Company in the County of Riverside.

Application 13-10-006
October 10, 2013

DECISION AUTHORIZING RAMONA WATER SYSTEM TO SELL, AND WESTERN WATER CONSERVATION, A CALIFORNIA PUBLIC BENEFIT CORPORATION, TO BUY, THE WATER SYSTEM OF RAMONA WATER COMPANY

Summary

This decision grants authority to Louis DeMartino, sole owner of Ramona Water Company (Ramona), to sell and Western Water Conservation, a Public Benefit Corporation, to buy Ramona, pursuant to Public Utilities Code §§ 851-854.¹ We are granting the transfer so Ramona can apply for grant funding reserved for non-profit entities. This decision also finds that Ramona violated § 433(a) by failing to collect and remit \$3,258 in user fees from 2009 to 2013, and imposes a suspended penalty of five thousand dollars (\$5,000) for the violations. If Ramona fails to comply with Commission requirements, we may reopen this proceeding to determine if the suspended penalty should become due and payable.

¹ Unless otherwise noted, all section cites refers to the Public Utilities Code.

1. Procedural History and Background

Ramona Water Company (Ramona) and Western Water Conservation (WWC) (collectively, Applicants) filed this application on October 10, 2013, and notice of the application appeared on the Commission's Daily Calendar on October 11, 2013. There were no protests to the application.

By Administrative Law Judge (ALJ) Ruling dated March 7, 2014, Applicants were directed to supply additional information. Applicants responded on March 17, 2014, providing the notice of proposed sale, a letter demonstrating WWC's eligibility for funding from the State Water Resources Control Board (Water Board),² and the scope of work necessary to bring the system up to the standards required by the State of California and Riverside County.³

By ALJ Ruling dated April 23, 2014, the Applicants were directed to cure deficiencies and supply more information. Applicants responded on May 7, 2014, providing a copy of Advice Letter No. 16 submitted to the Division of Water and Audits (DWA), a draft notice of user fee surcharge to Public Advisor's Office, Consumer Confidence Reports, and first quarter 2014 profit and loss statements.⁴ The Consumer Confidence reports provide evidence that nitrate and dichloroethylene levels in the water distributed by Ramona far exceed the

² Beginning on July 1, 2014, the Drinking Water Program was moved from the California Department of Public Health to the Water Board.

³ See Applicant's response to ALJ Inquiry dated March 14, 2014 (March 14th Response).

⁴ See Applicant's response to ALJ inquiry dated May 7, 2014, incorporated into the record by ALJ ruling dated July 17, 2014 (May 7th Response).

permitted contaminant levels.⁵ The profit and loss statements illustrate the continuing dire financial situation of Ramona.⁶

A Proposed Decision was mailed on August 19, 2014 and placed on the Commission Agenda for the August 28, 2014 Commission meeting. On August 25, 2014, the Commission received a letter from the Water Board stating that an offer of funding has not been issued to WWC from the Safe Drinking Water State Revolving Fund (Revolving Fund) program.⁷ The Water Board stated that Ramona did not have an active application for funding from the Revolving Fund and noted that Ramona would not be permitted funding because of its suspended corporate status with the Secretary of State.⁸

An ALJ Ruling was issued on September 9, 2014, incorporating the Water Board letter into the proceeding record and the proposed decision was withdrawn from the Commission Agenda. This decision reflects the information and requirements provided by the Water Board.

1.1. Description of Ramona Water Company

Ramona is a small water company serving 125 connections in a service territory two miles east of Anza in Riverside County. Ramona is a California corporation deemed to be a public utility and granted a certificate of public convenience and necessity on March 6, 1973.⁹ The water system emerged in the

⁵ *Id.* Attachment C.

⁶ *Id.* Attachment D-2014 1st Quarter Profit/ Loss Statements show a net income of \$2,115.15.

⁷ See Attachment to ALJ Ruling issued September 9, 2014.

⁸ *Id.*

⁹ Decision (D.) 81097.

1960s as developers drilled wells and installed distribution mains in order to sell lots in Ramona's service area. According to the application, the system today includes six wells and approximately 4,000 feet of water mains. There are three pressure tanks and two storage tanks. The Commission last dealt with Ramona in September 2005, when it authorized the sale of Ramona to Great Western Water District (GWWD) in Decision (D.) 05-04-047. However, GWWD failed to complete necessary steps to incorporate in California, and the sale was not completed. Louis DeMartino took possession of Ramona as sole proprietor and operator in 2005, without Commission authorization.

The last rate increase for Ramona was granted in Resolution (Res.) W-4293 in September 2001. At the time, Ramona was a for-profit company and those rates were calculated with a rate of return. Res. W-4293 granted an interim increase in gross annual revenues of \$33,064 and set a monthly flat rate for ratepayers at \$60.10 per month. This rate is still in effect today.

1.2. Description of Western Water Conservation

WWC is a 501(c)(4) California public benefit corporation formed by DeMartino with the intent to restructure Ramona for public grant eligibility. In 2010, DeMartino sold Ramona to WWC for \$1 and subsequently applied to the Internal Revenue Service (IRS) for tax exempt status. In 2012, the IRS retroactively granted 501(c)(4) status to WWC to 2010. To qualify for 501(c)(4) status, the IRS requires that the organization's net earnings must be dedicated to primarily charitable, educational, or recreational purposes.¹⁰ In addition, the net earnings may not benefit any private shareholder or individual, otherwise an

¹⁰ See Internal Revenue Service Publication 557, Tax-Exempt Status for Your Organization at 47.

excise tax may be imposed.¹¹ WWC then applied to the California Franchise non-profit division and the California Attorney General for non-profit status, which was granted in 2013. WWC is now awaiting approval from the Commission to finalize the transfer of Ramona to WWC. Since 2010, WWC has augmented its income by accepting service requests for 20 imperiled water facilities. However, this income stream was discontinued due to conflicts of interest.¹² If Ramona is unable to obtain grants, it is unlikely that its system will ever be upgraded.¹³

DeMartino is the Director of WWC. DeMartino has a current California General Engineering license with a specialization in pumping plants, power stations, and aqueducts. John Aeschlimann is the Treasurer and Financial Officer. Aeschlimann has a Master's in Business Administration and his experience includes serving as the treasurer of a non-profit for eight years. Aeschlimann's expertise in non-profit business administration will be a crucial component in the successful administration of the utility as a 501(c)(4). Merl Johnson currently serves as Vice Director of WWC. Johnson's expertise as a Licensed Water Operating and Distribution Engineer will be critical as WWC addresses its pressing infrastructure needs. Patricia Vernier will serve as liaison to the Commission and with public outreach as Secretary, Information Technology and Communications Officer.¹⁴ Based on the information provided by DeMartino, WWC has assembled an executive staff with adequate experience

¹¹ *Id.* at 48.

¹² Response to Inquiries, March 21, 2014.

¹³ *Id.*

¹⁴ *See* Application, Part I.

and qualifications to handle the transition to a utility structured as a public benefit corporation.

2. Request

DeMartino seeks authority to sell Ramona and transfer public utility water service responsibilities to WWC in order to get grants from the Water Board. The Water Board invited Ramona to apply for grants in the Revolving Fund program, and the invitation outlines the exigent circumstances necessitating the sale of Ramona to WWC.¹⁵ In short, funding from the Water Board is needed to cure severe deficiencies in Ramona's infrastructure and the quality of water it delivers to its customers.¹⁶ As previously stated, WWC does not currently have an offer of funding from the Revolving Fund.¹⁷ However, Commission approval of the transfer of ownership from Ramona to WWC would make WWC eligible to apply for the Revolving Fund.¹⁸ WWC's ability to secure grant funding from the Revolving Fund is contingent on Commission approval of the transfer. Ramona's sale to WWC will effectively restructure Ramona as a public benefit corporation, thereby solidifying its eligibility for the necessary funding.

A copy of the proposed bill of sale has been made part of the application. The negotiated sale price of the system is \$1. Ratepayers were notified of the sale and were told to send any protest to the Commission. No protest has been

¹⁵ See March 14th Response.

¹⁶ *Id.*

¹⁷ See Attachment to Assigned ALJ Ruling issued September 9, 2014.

¹⁸ *Id.*

received. In the absence of any objection to the sale, an evidentiary hearing in the matter is not required.

3. Jurisdiction

Pursuant to § 2701, Ramona is a public utility under Commission jurisdiction whether a for-profit corporation or a public benefit corporation.¹⁹

3.1. Commission Regulation of a Public Benefit Corporation

Most water systems under Commission jurisdiction are operated as for-profit entities. Ramona would be subject to all of the same requirements for delivery of safe and reliable water to its ratepayers. As a non-profit entity, Ramona would not be allowed to recover a return on investment above what is reasonably necessary to operate the water company. Ramona would be allowed to recover its operating costs including repair, replace and maintenance of the water system.

4. Standard of Review

Proposed water utility ownership changes are reviewed under §§ 851-854. This statute prohibits the sale or transfer of control of a public utility without the advance approval of this Commission. The Commission requires a test of ratepayer indifference when evaluating the sale of the public utility – any sale of a public utility should not result in consequences which cause the ratepayer to

¹⁹ Public Utilities Code § 2701 states: Any person, firm, or corporation, their lessees, trustees, receivers or trustees appointed by any court whatsoever, owning, controlling, operating, or managing any water system within this state, who sells, leases, rents, or delivers water to any person, firm, corporation, municipality, or any other political subdivision of the State, whether under contract or otherwise, is a public utility, and is subject to the provisions of Part 1 of Division 1 and to the jurisdiction, control, and regulation of the commission, except as otherwise provided in this chapter.

prefer the seller to the buyer. The buyer must also demonstrate that the buyer's acquisition of the public utility yields a tangible benefit to the ratepayer.²⁰ Using the ratepayer indifference test to assess the sale of Ramona, the Commission should evaluate several key metrics including: (1) service quality; (2) continuity of service; and (3) the impact of the purchase price on rate-base. The Commission must also assess whether the transaction complies with California Environmental Quality Act (CEQA) requirements and if any other agencies must approve the transaction.

We evaluate the proposed sale and purchase under these standards and conclude that WWC is capable of operating Ramona.

4.1. How Will the Proposed Sale Affect Service Quality

The proposed transaction is meant to greatly improve service quality for the ratepayers of Ramona. The convergence of Ramona's substantial infrastructural needs and its limited financial resources has led to this application. Ramona's financial balance sheet shows that Ramona has been operating at a loss of (\$69,558.28) during the period from 2010-2012.²¹ There is substantial need to rehabilitate Ramona and bring it into compliance with public health codes. In its invitation to apply for funding, the Revolving Fund of the Water Board asserts that Ramona is contaminated with chronic total coliform bacteria.²² The system also suffers from low water pressure and frequent outages. The scope of work required to elevate Ramona to an acceptable

²⁰ See D.05-04-47 at 9-11; D.04-01-066 at 8-11; and D. 01-09-057 at 26-28.

²¹ See Ramona Application Part 1.

²² The Revolving Fund Invitation to Apply for Funding, dated 11/30/12.

standard is extensive. The cost of preliminary engineering, evaluation, and design work alone is estimated at \$455,000.²³ Planned improvements include wellhead rehabilitation, storage tank upgrades, revamped distribution pipelines, new customer meters, and possibly drilling of new wells. The total estimated cost of these system upgrades is \$1,206,415, bringing the total estimated cost to \$1,661,415.

It is expected that the planned improvements will result in safe drinking water with more reliable system pressure and substantially decreased outages. The 2012 and 2013 Consumer Confidence reports illustrate the dire need for improvement in the quality of water provided by Ramona. The detected levels for nitrate and dichlorethylene in 2013 far exceeded the primary maximum contaminant levels (MCL) allowed by the State of California.²⁴ The MCL is the highest level of contaminant that is allowed in drinking water.²⁵ An MCL for a given contaminant is set as close to the public health goal (PHG) as is economically and technologically feasible.²⁶ The PHG is the level of a contaminant in drinking water below which there is no known or expected risk to health.²⁷ PHG's are set by the California Environmental Protection Agency (CEPA).²⁸

²³ The Revolving Fund Application for Short Term Planning Funds, Budget Sheet.

²⁴ 2013 Consumer Confidence Report at 6.

²⁵ *Id.* at 1.

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.* at 5.

The MCL for nitrate is 45 mg/L. Nitrate in drinking water above this level poses a significant health risk for infants of less than 6 months of age, pregnant women, or those with enzyme deficiencies.²⁹ Nitrate interferes with the capacity of the blood to carry oxygen and can be deadly. In 2013, the nitrate level in Wells 2 and 5 exceeded the MCL in all test periods.³⁰ Wells 3 and 4 are currently offline due to pump failure and Well 6 is offline indefinitely due to insufficient water.³¹ Currently, Well 7 is the largest water resource in the system with 18 gallons per minute (GPM) of production. Well 7 is the only documented Ramona well that is both in service and free of hazardous contaminants. Currently, Ramona is also utilizing four undocumented wells in a basement rock aquifer which each produce about 3-5 GPM.

The sale will make Ramona eligible for grant funding, which will substantially improve on the service quality provided by Ramona. DeMartino avers that hydrological studies conducted on potential sites for new wells have yielded favorable results. Once funding from the Water Board is secured, the scope of work anticipates drilling a new test well next to the lightning and earthquake damaged Ranch Well. This well is in the alluvial fill zone with known historically high water production of approximately 220 GPM. If for some reason the test well fails to confirm the historical value of the Ranch Well, Ramona would purchase another site of documented water potential. Once the new well is placed into service, Wells 2 and 5 will be taken out of service. In addition, Wells 3 and 5 are proposed to be put back into service once the faulty

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.*

pumps are replaced or repaired. If the water from Wells 3, 5 and the new test well is deemed safe by the Water Board, it is expected that the system will have substantially more reliable resources than exist at present.

4.2. How Will the Proposed Sale Affect Service Continuity

Because WWC was formed only to restructure Ramona for the eligibility of the Water Board funds, the proposed sale should not adversely impact service continuity. In fact, if funding is acquired the sale should benefit service continuity by resulting in less frequent outages, higher pressure and improved quality.

4.3. Is the Purchase Price Reasonable and Properly Calculated?

The sale of Ramona to WWC is effectively a corporate restructuring from a for-profit endeavor to a non-profit public benefit corporation. DeMartino is the sole proprietor of Ramona, and has been the Director of WWC since its inception. The sale price has been calculated at the nominal and symbolic valuation of \$1. The sale price is reasonable and proper given the circumstances and purpose of the sale.

4.4. Is a California Environmental Quality Act (CEQA) Review Required by the Proposed Sale?

The Commission has reviewed the application to determine whether CEQA applies to this proposed conveyance. CEQA applies to a “project or action which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change . . . [and

involves] the issuance to a person of a lease, permit, license, certificate, or entitlement for use by one or more public agencies.”³² This specific application involves only a proposed change in corporate structure and organization of the existing water facilities. However, as a result of the restructuring of Ramona to WWC, the utility will be eligible for funding that will permit the system to engage in significant infrastructural improvements.

CEQA excludes “government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment,”³³ from the definition of a project. Here, the Commission’s act that authorizes a corporate restructuring could be interpreted as an act enabling a funding mechanism, but not a funding mechanism itself. Further, this act by the Commission does not involve any specific fiscal or funding commitment. The funding commitment for the foreseeable well project will ultimately be provided by the Water Board. CEQA review should be conducted by the Water Board as the lead agency when the Water Board awards funding to WWC.

4.5. Has WWC Received Permits Required by Other Agencies to Operate Ramona?

Pursuant to the provisions of California Health and Safety Code (CH&S) § 11625(a), any person or entity operating a public water system must have a permit to operate from the Water Board. A change in ownership of a public health system requires the prospective new owner to apply to and satisfy the Water Board requirement that the new owner “possesses adequate financial,

³² CEQA Guidelines, California Code of Regulations Title 14, § 15378(a).

³³ CEQA Guidelines, California Code of Regulations Title 14, § 15378(b)(4).

managerial, and technical capability to ensure the delivery of pure, wholesome, and potable drinking water.”³⁴ The qualifications of WWC’s executive members are adequate given the size of its customer base. In addition to the authorization from the Commission for the acquisition of Ramona, the new owner must also apply for and receive permits to operate Ramona. In the current case, the public health agency with jurisdiction is the Water Board. In its March 7th Response, DeMartino asserts that WWC is a Water Board licensed operator. A letter is included from the Water Board to DeMartino, demonstrating Ramona’s eligibility for funding. Our decision granting the transfer is conditioned upon Ramona being a Water Board licensed operator. The proposed sale and any subsequent infrastructure projects are contingent on Ramona’s compliance with any additional permitting requirements from other agencies.

4.6. Ramona Should Not Be Required to File an Informal General Rate Case.

Ramona is not required to file an informal general rate case (GRC). Because Ramona is still under the jurisdiction of the Commission, it may come before the Commission to request a rate increase in the future. Ramona is prohibited from using any funds acquired by grants and applied to infrastructural upgrades to compute its rate-base in future GRC proceedings. However, Ramona should file a Tier 3 advice letter with the Division of Water and Audits to remove or adjust the rate of return, taxes and depreciation expenses in its authorized revenue requirement.

³⁴ CH&S Code § 116540(a).

4.7. Payment of Fees

As noted above, Ramona will continue to operate under the jurisdiction of the Commission. Pursuant to § 433(a), public utilities are required to collect and remit an annual Public Utilities Reimbursement Fee (annual fee). Small water companies must also submit an Annual Fee Statement for the CPUC Utilities Reimbursement Account, Water and Sewer System Corporations – Small Water Companies (statement). Ramona asserts it was not aware of the user fee requirement, has never collected user fees from its customers, nor remitted it to the Commission. The Commission’s DWA reports a failure to submit user fees from 2009 to 2013, totaling \$3,258.44. At the direction of the assigned ALJ, Applicants sent notices to its customers of its oversight and began collecting user fees on July 1, 2014.

Although Ramona did not submit the required user fees, it also did not collect those fees from its customers. The Commission will not retroactively penalize the Ramona customers by requiring payment of past due user fees.

Pursuant to § 2107, the Commission can impose penalties at between \$500 to \$50,000 dollars per violation.³⁵ To determine the penalty amount, we look to the criteria established in D. 98-12-075, Appendix B, which has provided guidance in similar cases. We consider the following criteria: 1) the severity of the economic or physical harm resulting from the violation; 2) the utility’s conduct to prevent, detect, disclose, and rectify the violation; 3) the utility’s

³⁵ § 2107 states: “Any public utility that violates or fails to comply with any provision of the Constitution of this state or of this part, or that fails or neglects to comply with any part or provision of any order, decision, decree, rule, direction, demand, or requirement of the commission, in a case in which a penalty has not otherwise been provided, is subject to a penalty of not less than five hundred dollars (\$500), nor more than fifty thousand dollars (\$50,000) for each offense.”

financial resources; 4) the public interest involved; 5) the totality of the circumstances; and 6) Commission precedents.

1. The severity of the economic or physical harm- Ramona customers suffered no economic or physical harm from the non-collection of user fees.
2. The utility's conduct - Once notified of the oversight, Ramona quickly rectified the violation by sending notice to its customers and began collecting the fees on July 1, 2014.
3. The utility's financial resources - As discussed above, Ramona is an imperiled water system operating at a deficit and requiring substantial upgrades to be funded through grants. As such, any penalty imposed by the Commission would be detrimental.
4. Public interest involved - California's current drought conditions have compounded Ramona's need for a system overhaul. Public interest in the health and safety of Ramona's customers dictates that the Commission act quickly to ensure continued delivery of safe drinking water to Ramona's customers.
5. The totality of the circumstances - Ramona's failure to remit fees was due to inadvertent oversight rather than intentional circumvention of Commission rules. In conjunction with other factors enumerated above, the Commission finds it reasonable to impose a suspended penalty.
6. Commission precedents - There are Commission precedents which impose suspended penalties due to a variety of circumstances.³⁶

Based on the above, we impose a suspended penalty of five thousand dollars (\$5,000); \$1,000 for each year Ramona failed to remit user fees. If Ramona fails to comply with Commission regulatory requirements, we may reopen this

³⁶ See D.00-09-071.

proceeding to determine if the suspended penalty should become due and payable.

Effective July 1, 2007, the fees provided for in § 431 that apply to water corporations are fixed at 1.5% of revenue.³⁷ Due to the small size of Ramona, these fees must be remitted with the corresponding statement annually, by April 15 of the subsequent year. If Ramona fails to submit its regulatory filings on a timely basis, we may reopen this proceeding to determine if the suspended penalty should become due and payable.

4.8. Conclusion

The Commission evaluates the proposed sale and purchase under the above standard of review. Ramona requires substantial capital improvements to its infrastructure in order to consistently provide safe water to its customers. WWC, as a public benefit corporation, would be eligible to apply for the Revolving Fund designed to improve water systems plagued by hazardous contaminants. Ramona serves only 125 connections but requires approximately \$1,661,415 in capital improvements. Without the restructuring of Ramona and the ability to obtain grant funding, the completion of these infrastructure improvements is financially infeasible.

However, WWC should obtain additional expertise in some critical areas. Given Ramona's continuing non-compliance with Commission and Water Board water quality requirements and the forthcoming infrastructure improvements, WWC should hire or consult regularly with a water quality expert, and hire a

³⁰ Resolution M-4819, July 1, 2014.

regulatory compliance officer or assign that role to a member of the executive staff.

Due to the exigent circumstances and the reasonable nature of the transaction, the Commission authorizes the transfer of Ramona to WWC.

5. Proceeding Category and Need for Hearing

In Resolution ALJ-176-3324, dated October 17, 2013, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary. Because there were no protests, the preliminary determination that hearings are necessary is changed to no hearings are necessary.

6. Comments on Proposed Decision

A Proposed Decision was mailed on August 19, 2014 and the Commission received comments from the Water Board on August 25, 2014. The Comment letter has been received into the record and this decision reflects changes made based on those comments.

7. Presiding Officer

Pursuant to Rule 13.2(b), Catherine J.K. Sandoval is the assigned Commissioner. ALJ S. Pat Tsen, is designated as the Presiding Officer.

Findings of Fact

1. Resolution ALJ-176, dated October 17, 2013, preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were not necessary.

2. Ramona Water Company provides service in Anza, California to approximate 125 customers.

3. Ramona Water Company last had its rates reviewed by the Commission in 2001, when it was a for-profit company. The calculation of those rates included a

rate of return which should now be removed or adjusted to reflect current expenses.

4. Western Water Conservation has adequate experience providing water services in the State of California.

5. Applicants' sales agreement calls for a purchase price of \$1.

6. Approval of the application will have no significant effect on the environment.

7. Ramona Water Company requires substantial infrastructure improvements, including wellhead rehabilitation, storage tank upgrades, revamped distribution pipelines, new customer meters, and the new well exploration and development.

8. Ramona Water Company is not eligible to obtain grant funding from the State Water Resources Control Board due to its suspended corporate status with the Secretary of State.

9. Western Water Conservation has not secured grant funding for the needed infrastructure improvements to Ramona Water Company, but will be eligible to apply for grant funding once the Commission approves the transfer.

10. Pursuant to the California Health and Safety Code, when a change in ownership of a public water system occurs, the buyer of the public water system must apply for a new operating permit.

11. Western Water Conservation is a licensed State Water Resources Control Board operator.

12. Ramona Water Company did not collect or remit utility reimbursement fees from 2009 to 2013.

13. Ramona Water Company has filed an advice letter with the Commission's Division of Water and Audits to revise its Schedule UF relating to user fee surcharges.

14. Ramona Water Company has provided notice to its customers, and began collecting the user fee surcharge on July 1, 2014.

Conclusions of Law

1. The Commission retains jurisdiction over public benefit corporations operating water systems in California.

2. Transfer of ownership of Ramona Water Company to Western Water Conservation meets the test of ratepayer indifference because customers will be unaffected in terms of service quality and continuity of service.

3. Without grant funding, the necessary infrastructure upgrades to Ramona are not possible.

4. Louis DeMartino, as sole proprietor of Ramona Water Company (Ramona), should be conditionally authorized to sell and Western Water Conservation (WWC) should be conditionally authorized to buy Ramona pursuant to WWC's subsequent ability to secure grant funding necessary for the overhaul and upgrades of the water system.

5. The purchase price of the system, \$1 is reasonable.

6. Authority for Louis DeMartino to sell Ramona Water Company (Ramona) and Western Water Conservation (WWC) to buy Ramona should be conditioned on WWC's receipt of the necessary permits from the State Water Resources Control Board to operate Ramona.

7. Authority for Louis DeMartino to sell Ramona Water Company (Ramona) and Western Water Conservation (WWC) to buy Ramona should be conditioned on WWC curing its suspended status with the Secretary of State.

8. Western Water Conservation should file with the Division of Water and Audits within 30 days of receipt a copy of the State Water Resources Control Board permit to operate Ramona Water Company.

9. Western Water Conservation should obtain additional expertise in the areas of water quality, accounting, and regulatory compliance.

10. The proposed sale of Ramona Water Company is excluded from the definition of a project under California Environmental Quality Act, and no further environmental review is required at this time.

11. Pursuant to Public Utilities Code § 433(a), public utilities are required to collect and remit an annual fee to the Commission. Small water companies must also submit an Annual Fee Statement for the Utilities Reimbursement Account, Water and Sewer System Corporations – Small Water Companies.

12. Pursuant to Public Utilities Code §2107, the Commission can impose penalties between five hundred dollars (\$500) to fifty thousand dollars (\$50,000) per violation.

13. Ramona Water Company should file annual statements and collect and remit user fees to the Commission by April 15 of each subsequent year.

14. The Commission's Division of Water and Audits should review Ramona Water Company's (Ramona) annual filings with the Commission to ensure Ramona's continued regulatory compliance.

15. Ramona Water Company should comply with Commission's regulatory filing requirements on a going forward basis or be subject to the suspended penalties. If Western Water Conservation fails to remit the user fees, or submit the annual statement, the Division of Water and Audits should recommend whether this proceeding should be reopened to determine if the suspended penalty of five thousand dollars (\$5,000) should become due and payable.

16. Western Water Conservation should be prohibited from using any funds acquired by grants and applied to infrastructural upgrades to compute its rate-base in future general rate case proceedings.

17. As a public benefit corporation, Western Water Conservation should only recover its operating costs to repair, maintain, and replace its water system. Operating costs should be subject to the reasonableness standard.

18. Ramona Water Company's rates were calculated with a rate of return which should be removed or adjusted to reflect current circumstances.

19. Western Water Conservation should file a Tier 3 advice letter requesting an adjustment to rates by reducing the authorized revenue requirement to reflect the removal or adjustment to its rate of return, taxes and depreciation expenses with the Division of Water and Audits within 90 days of this decision.

20. Hearings are not necessary.

21. Application 13-10-006 should be closed.

ORDER

IT IS ORDERED that:

1. Louis DeMartino, sole proprietor of Ramona Water Company, is authorized to sell and Western Water Conservation is authorized to buy Ramona Water Company.

2. Authority for Louis DeMartino to sell and Western Water Conservation (WWC) to buy Ramona Water Company is conditioned on WWC's ability to secure grant funding from the Safe Drinking Water State Revolving Fund administered by the State Water Resources Control Board.

3. Authority for Louis DeMartino to sell Ramona Water Company (Ramona) and Western Water Conservation (WWC) to buy Ramona is conditioned on WWC's receipt of a permit from the State Water Resources Control Board (Water

Board) to operate Ramona. WWC shall file in this docket within 30 days of receipt a copy of the permit from the Water Board to operate Ramona.

4. Western Water Conservation shall collect user fees, and annually submit by April 15 of each year, the fees and Annual Fee Statement for the California Public Utilities Commission Utilities Reimbursement Account, Water and Sewer System Corporations – Small Water Companies.

5. Western Water Conservation shall exclude any funds acquired by grants and applied to infrastructure improvements when computing its rate-base in future general rate case proceedings.

6. Western Water Conservation shall file a Tier 3 advice letter with the Division of Water and Audits within 90 days of this decision to have its rates reviewed pursuant to discretion given in Conclusion of Law #18.

7. In future general rate cases, Western Water Conservation shall only recover its operating costs along with a reasonable reserve margin to repair, maintain, and replace its water system. Such operating costs shall be reviewed by the Commission for reasonableness.

8. Hearings are not necessary.

9. Application 13-10-006 is closed.

This order is effective today.

Dated _____, at San Francisco, California.