

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Angelo Louis Andreini III
for Authority to Sell the Riverview Estates
Water Company (U43D) to Shawn Lewis.

Application 15-05-018
(Filed May 6, 2015)

**DECISION AUTHORIZING ANGELO LOUIS ANDREINI III TO SELL AND
SHAWN LEWIS TO BUY RIVERVIEW ESTATES WATER COMPANY**

Summary

Pursuant to Public Utilities Code §§ 851-854, this decision grants Angelo Louis Andreini III authority to sell and transfer ownership of the Riverview Estates Water Company to Shawn Lewis. As a condition of our approval, Shawn Lewis must receive a domestic water supply permit from Tehama County, the local primary agency, as delegated by the California Water Resources Control Board, and file a copy of the domestic water supply permit in this docket within 30 days of receipt. Shawn Lewis must not take possession of the Company or collect tariffed rates from the customers of Riverview Estates Water Company until he has received the required permit. This decision does not change rates and but ensures that ratepayers will continue to receive safe and reliable water service following the transfer of ownership. This proceeding is closed.

1. Description of Company and Background

Riverview Estates Water Company¹ (System) is a very small Class D water utility company providing water to an area known as B&W Riverview Estates, which is located in an unincorporated area on the east bank of the Sacramento River, approximately three miles north of Los Molinos, Tehama County. The System serves approximately 17 flat rate customers. The company's water utility system consists of a single well, adjacent to a 5,000-gallon steel pressure/storage tank and distribution mains. The water mains primarily consist of 3-1/4-inch standard steel pipes² installed more than 40 years ago.

On October 28, 2003, The Nelson E. & Winifred M. Bartoo Trust entered into a purchase agreement with Angelo Louis Andreini III³ and was granted Commission authorization for a sale and transfer⁴ of the System. Mr. Andreini, the sole owner and employee of the System, assumed operating responsibilities for the water system – including bill collection, water testing, and system maintenance. In December 2012, Mr. Andreini contracted with Cranmer Engineering, Inc.,⁵ to perform water sampling and testing, as well as serve as the licensed operator for the System.

¹ The Company's physical address is 9400 Riverview Avenue, Los Molinos, CA. The official mailing address is P.O. Box 1134, Red Bluff, CA 96080-1134, Phone (530) 604-4435.

² The Company's 2014 Annual Report, Schedule O, specifies that (excluding service pipes) there are 280 feet of 2-inch and under standard screw pipe, and 640 feet of 2-1/4-inch to 3-1/4-inch pipe.

³ Andreini has prior experience in water and wastewater plant operation and holds a BS degree in Soils and Irrigation.

⁴ See Decision 05-02-012 dated February 10, 2005.

⁵ Cranmer Engineering, Inc. is a certified water analysis laboratory established in 1962. It provides water testing and water operator services. It is located at 1188 East Main Street, Grass

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On May 6, 2015, Angelo Louis Andreini III (Seller) filed an application seeking authority to sell the System and transfer ownership to Shawn Lewis⁶ (Buyer) because of his advanced age and anticipated retirement/relocation. Buyer believes acquisition of the System is a good financial investment.

Notice of the application was published in the Commission's Daily Calendar on June 17, 2015. No protests to the application were filed.

2. Procedural Background

A telephonic Prehearing Conference (PHC) was held on September 2, 2015, to establish the service list, discuss the scope, and develop a procedural timetable for the management of the proceeding. Both parties participated in the PHC. Jason Fouyer, a representative of Cranmer Engineering, the licensed operator, also participated.⁷ The parties agreed that the scope of this proceeding would be:

- a. Whether the sale and transfer of Riverview Estates Water Company should be approved.
- b. Whether the sale and transfer meets the standard of review for water utility ownership changes under Public Utilities (Pub.Util.) Code Sections 851-854 and Sections 2718-2720.
 - i. Does the sale and transfer result in ratepayer indifference?
 - ii. Does the sale and transfer affect service quality?
 - iii. Does the sale and transfer adversely affect service continuity?

Valley, CA 95945. Cranmer has annual revenue of \$1 to 2.5 million and employs a staff of 10-20 people.

⁶ Buyer is an entrepreneur/business owner and medical professional with management and accounting experience, whose assets, liabilities and net worth are described in Exhibit D to the application. Buyer's address is P.O. Box 335, Los Molinos CA 96055 Phone (415) 967-3429.

⁷ In addition to the parties, James Boothe, a supervisor from the Division of Water & Audits participated in the call and Jamie Ormond, Commissioner Sandoval's advisor, also participated.

- iv. Is the purchase price reasonable?
- c. Whether the sale and transfer of Riverview Estates Water Company will have a significant impact on the environment and require California Environmental Quality Act (CEQA) review.
- d. Whether required permits from state and local agencies have been obtained.
- e. Whether there are safety considerations raised by this proceeding.

During the PHC, the Seller confirmed that he had mailed notice of the sale to the 17 customers of the System. He indicated that he did not anticipate any protests from customers. He confirmed that water testing and sampling performed by Cranmer Engineering, the licensed operator of the System, revealed no violations or operational issues since he acquired ownership in 2003.⁸

Mr. Andreini confirmed that a domestic Water Supply Permit issued by Tehama County in 2004 was still in place, and that the Buyer, Mr. Lewis, had completed information necessary for transfer of the permit upon completion of the sale and approval by the Commission.

The Buyer stated that it is his plan to continue to contract with Cranmer Engineering to serve as operator of the System following the transfer of ownership. He explained that his prior experience in the accounting field gives him the expertise necessary to prepare financial reports required by the government, including the Commission.

⁸ Mr. Fouyer confirmed that his company performs on all water testing, monitoring to ensure that the System is in compliance with state and county drinking water standards. He agreed there have been no operation violations or issues about the quality of the System's water since inception.

3. Standard of Review

Proposed water utility ownership changes are reviewed under Pub. Util. Code §§ 851-854, which prohibit the sale or transfer of control of a public utility without the advance approval of this Commission, and §§ 2718-2720, which require that the Commission use the “fair market value” or a method of valuation that is just and equitable” when determining the rate base for an acquired water system.⁹

Section 854(a) requires evaluation of whether or not the transaction will be “adverse to the public interest.”¹⁰ The Commission also requires a test of ratepayer indifference when evaluating the sale of a public utility. The ratepayer

⁹ PUC § 2720 states:

(a) The commission shall use the standard of fair market value when establishing the rate base value for the distribution system of a public water system acquired by a water corporation. This standard shall be used for ratesetting. (1) For purposes of this section, "public water system" shall have the same meaning as set forth in Section 116275 of the Health and Safety Code. (2) For purposes of this section, "fair market value" shall have the same meaning as set forth in Section 1263.320 of the Code of Civil Procedure.

(b) If the fair market value exceeds reproduction cost, as determined in accordance with Section 820 of the Evidence Code, the commission may include the difference in the rate base for ratesetting purposes if it finds that the additional amounts are fair and reasonable. In determining whether the additional amounts are fair and reasonable the commission shall consider whether the acquisition of the public water system will improve water system reliability, whether the ability of the water system to comply with health and safety regulations is improved, whether the water corporation by acquiring the public water system can achieve efficiencies and economies of scale that would not otherwise be available, and whether the effect on existing customers of the water corporation and the acquired public water system is fair and reasonable.

(c) The provisions of subdivisions (a) and (b) shall also be applicable to the acquisition of a sewer system by any sewer system corporation or water corporation.

(d) Consistent with the provisions of this section, the commission shall retain all powers and responsibilities granted pursuant to Sections 851 and 852

¹⁰ See Decision (D.) 03-12-003 at 6; D.01-06-007 at 15.

indifference test considers whether the sale of a public utility will have any net consequences that would cause the ratepayer to prefer the seller to the buyer.

Using the ratepayer indifference test to assess the sale of the System, 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.¹¹

Lastly, we assess whether the transaction is in compliance with California Environmental Quality Act (CEQA) requirements, and whether any required approvals of other agencies have been received.

4. Service Quality

There is no detriment to the quality of service to ratepayers as a result of the sale of the System from Buyer to Seller in this case. The Seller continues to provide management of the System until the sale and transfer of ownership is approved by the Commission. The information provided in the application suggests that the proposed sale will not adversely impact the operations of the System. The Buyer's assets and managerial expertise appear equivalent to those of the Seller.¹² In addition, because the Buyer intends to maintain the contract with Cranmer Engineering for operation of the System, there will be sufficient technical expertise to ensure appropriate monitoring of the equipment, to perform routine maintenance and repairs, to collect water samples required by the County or State and to assist in preparation of periodic reports about the operation of the System.

¹¹ See D.05-04-047 at 9-11; D.04-01-066 at 8-11 and D.01-09-057 at 26-28.

¹² At the PHC held September 2, 2015, Lewis explained that he has 25 years of extensive experience within the accounting field, which would permit him to oversee accounting and compliance requirements.

To ensure continued service quality, it would be prudent for the Buyer to maintain the System's contract with Cranmer Engineering for the first two years of Buyer's operation of the System. Buyer must provide the Commission with at least 60-day notice before terminating the contract with Cranmer Engineering, so that the Commission may determine that any subsequent operator of the System has sufficient technical expertise to maintain the service quality.

5. Service Continuity

The purchase agreement provides that responsibilities associated with the System will not be transferred to the Buyer until, at the earliest, October 2015.¹³ Thus, there is an orderly transition of ownership. Most importantly, the operation of the System will continue to be handled by Cranmer Engineering, a certified water analysis laboratory, even after the transfer of ownership. As discussed in section 3 above, it would be prudent for the Buyer to maintain the System's contract with Cranmer Engineering for the first two years of Buyer's operation of the System to ensure continuity of service. The Buyer must also provide the Commission with at least 60-day notice before terminating the contract with Cranmer Engineering, thereby ensuring orderly transition of service operation in the future.

6. Purchase Price

The reasonableness of the proposed purchase price is assessed by comparing it to the fair market value of the utility's assets. The purchase price of \$10,219.00 represents the plant-in-service value of the System (\$13,655) less the depreciated reserve (\$3,436.00). Upon purchasing the System in 2003, Andreini

¹³ Exhibit A to the application.

paid a purchase price that represented the net book value of the total plant in service. Schedule A of the 2014 Annual Report reflects that the Water Plant in Service balance is \$13,655, and that total assets (including cash of \$4,183) were \$13,856 as of December 31, 2014. The purchase price of \$10,219 is a fair market value price as it represents close to the depreciated assets of the water system. The buyer is willing to pay this price and the seller is willing to accept it. Accordingly, we find the purchase price is reasonable.

7. CEQA

We have reviewed the application to determine whether CEQA applies to this proposed transaction. While the sale of utility assets may be a project under CEQA, we find that based on the record before us, it can be seen with certainty that this transfer of control will not have a significant effect on the environment because this decision does not authorize any construction on or upgrades to the water system. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. (CEQA Guidelines § 15061(b)(3).)

8. Permits Required by Other Agencies

Pursuant to the provisions of California Health and Safety Code § 116525(a), any person or entity operating a public water system must have a domestic water supply permit to operate that system from California Department of Public Health.¹⁴ The System operates under the permit issued to

¹⁴ Effective July 1, 2014, the California Safe Drinking Water Act [California Health and Safety Code sections 116270 - 116755] in §§116271(a) and (b), delegated to the Water Resources Control Board, the authority for issuance and enforcement of public water system permits. The Tehama County Department of Environmental Health, the local primary agency, has delegated

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Seller in 2004.¹⁵ A change in ownership of a public health system requires the prospective new owner to apply to and satisfy the public health requirement that the new owner “possesses adequate financial, managerial, and technical capability to ensure the delivery of pure, wholesome, and potable drinking water.” Therefore, in addition to the authorization from the Commission for the acquisition of the System, the Buyer must also apply for and receive a domestic water supply permit from the Tehama County Department of Environmental Health to operate the System. We condition our approval of the sale upon the Buyer’s receipt of the above permit to operate the system. The Buyer must file a copy of the permit in this docket within 30 days of receipt. The Buyer may not take possession of the System or collect tariffed rates from customers until it has received and filed with the Commission a copy of the water supply permit that he receives from Tehama County.

The Buyer must also file, by Tier 2 advice letter, copies of any county business permits issued by Tehama County.

9. Safety Considerations

The Commission has the statutory authority and responsibility to ensure that a regulated water company provides water service in a manner that protects the public health and safety at just and reasonable rates. (Cal. Const., art. XII, §§ 3,¹⁶ 6,¹⁷ Pub. Util. Code §§ 451,¹⁸ 701,¹⁹ and 768.²⁰)

authority to issue such a water supply permit pursuant to Section 116330 of the California Health and Safety Code.

¹⁵ The permit remains in effect unless revoked for failure to remain in compliance or unless there are changes or modifications to the System.

¹⁶ Cal. Const., art. XII, § 3: Private corporations and persons that own, operate, control, or manage a line, plant, or system for the transportation of people or property, the transmission of

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Approval of the proposed transfer promotes the safety, health, comfort, and convenience of the System's customers, and the public. We remind the Buyer that the System is required to comply with all pertinent State and Federal statutes, regulations, and orders pertaining to the provision of safe drinking water. In the required Annual Report filings, and in all of the System's future requests for approval to increase rates or charges, the Buyer shall report all citations from the California State Water Resources Board or from Tehama County that raise or address any safety concerns.

telephone and telegraph messages, or the production, generation, transmission, or furnishing of heat, light, water, power, storage, or wharf age directly or indirectly to or for the public, and common carriers, are public utilities subject to control by the Legislature. The Legislature may prescribe that additional classes of private corporations or other persons are public utilities.

¹⁷ Cal. Const., art. XII, § 6: The commission may fix rates, establish rules, examine records, issue subpoenas, administer oaths, take testimony, punish for contempt, and prescribe a uniform system of accounts for all public utilities subject to its jurisdiction.

¹⁸ Cal. Pub. Util. Code § 451: All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.

¹⁹ Cal. Pub. Util. Code § 701: The commission may supervise and regulate every public utility in the State and may do all things, whether specifically designated in this part or in addition thereto, which are necessary and convenient in the exercise of such power and jurisdiction, equipment, and facilities, including telephone facilities, as defined in Section 54.1 of the Civil Code, as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public

²⁰ Cal. Pub. Util. Code § 768: The commission may, after a hearing, require every public utility to construct, maintain, and operate its line, plant, system, equipment, apparatus, tracks, and premises in a manner so as to promote and safeguard the health and safety of its employees, passengers, customers, and the public. The commission may prescribe, among other things, the installation, use, maintenance, and operation of appropriate safety or other devices or appliances, including interlocking and other protective devices at grade crossings or junctions and block or other systems of signaling. The commission may establish uniform or other standards of construction and equipment, and require the performance of any other act which the health or safety of its employees, passengers, customers, or the public may demand.

In addition, the System must report, within five business days, any urgent safety or emergency concerns to the Commission's Executive Director and the Director of the Division of Water and Audits.

10. Public Notification

Notice of the proposed sale and transfer was mailed to customers of the system on August 14, 2015, notifying the customers that the Seller is transferring ownership of the system to the Buyer. No letters opposing the sale were received.

11. Conclusion

Both parties desire the sale and transfer of the System. The Seller desires to exit the water utility business. The Buyer is willing to take over ownership of the System because he believes this will be a good business decision. The operation of the System by Cranmer Engineering will continue. The terms and conditions of service to the customers will remain unchanged as a result of the sale. There will be no immediate change in rates.

We conclude that the proposed sale of Riverview Estates Water Company is reasonable, in the public interest, and will provide tangible benefits to ratepayers, which include continued provision of quality water service by a water service provider that has the operational experience and financial ability to operate and own the System. We therefore conditionally approve the application for sale of the System as of the effective date of this decision. Since the Buyer has not yet received a domestic water supply permit from the Tehama County Department of Environmental Health to operate the System, we condition our approval on the Buyer's receipt of such a permit.

12. Uncontested Matter

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is waived.

In Resolution ALJ 176-3359 dated June 25, 2015, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary. No protests have been received. Given this status, public hearing is not necessary.

13. Comments on Proposed Decision

This is an uncontested matter in which the decision grants the relief requested. In such case, the comment period may be shortened or waived (§ 311(g)(2)). With the agreement of the applicants, we waive the period for public review.

14. Assignment of Proceeding

Catherine J.K. Sandoval is the assigned Commissioner and Patricia B. Miles is the assigned ALJ in this proceeding.

Findings of Fact

1. Angelo Louis Andreini III (Seller) and Shawn Lewis (Buyer) seek authority to transfer ownership of the Riverview Estates Water Company (System) from Seller to Buyer.
2. The System provides service in Tehama County, California to approximately 17 active customers.
3. The Seller, who has been managing the System since November 2003, desires to exit the water utility business.

4. The Buyer has managerial experience and will continue to contract with Cranmer Engineering Company, a certified water analysis laboratory, to operate the System.

5. There is no detriment to the quality of service to ratepayers as a result of the sale of the System from Buyer to Seller in this case.

6. There will be sufficient technical expertise to ensure appropriate monitoring of the equipment, to perform routine maintenance and repairs, to collect water samples required by the county or state, and to assist in preparation of periodic reports about the operation of the System.

7. Service continuity will not be adversely affected by the sale of the system.

8. The purchase price of the system is \$10,219.00.

9. The Buyer has requested, but not yet received, a permit from the Tehama County Department of Environmental Health to operate the System.

Conclusions of Law

1. The transfer of ownership of the Riverview Estates Water Company meets the test of ratepayer indifference, in that customers will be unaffected in terms of service quality, continuity of service, and impact of the purchase price on rate base.

2. The parties agreed purchase price of \$10,219 represents a fair market value price and is reasonable.

3. Pursuant to the California Health and Safety Code, the change in ownership of this public water system requires a new domestic water supply permit from the Tehama County Department of Environmental Health issued under delegated authority of the California Water Resources Control Board.

4. The Buyer should maintain the System's contract with Cranmer Engineering for the first two years of Buyer's operation of the System to ensure continuity of service.

5. The transfer of control of Riverview Estates Water Company will not have a significant effect on the environment and is not subject to the California Environmental Quality Act.

6. Approval of the sale and transfer of Riverview Estates Water Company promotes the safety, health, comfort and convenience of the System's customers and the public.

7. The Buyer should provide the Commission with at least 60-day notice before terminating the contract with Cranmer Engineering to ensure an orderly transition of service operation in the future.

O R D E R

IT IS ORDERED that:

1. The application of Angelo L. Andreini III to sell and Shawn Lewis to buy Riverview Estates Water Company is approved, conditioned upon Shawn Lewis obtaining a domestic water supply permit from the Tehama County Department of Environmental Health.

2. Within 30 days of receipt, Shawn Lewis must file in this docket a copy of the domestic water supply permit from the Tehama County Department of Environmental Health. Shawn Lewis may not take possession of Riverview Estates Water Company or collect tariffed rates from customers until he has received and filed with the Commission a copy of the water supply permit from Tehama County.

PROPOSED DECISION

3. Within 30 days of the transfer of ownership, Angelo L. Andreini III and Shawn Lewis shall notify the Director of the Division of Water and Audits, in writing, that the transfer has taken place, attaching copies of the transfer document.

4. Upon consummation of the transfer of ownership, Angelo L. Andreini III shall be relieved of public utility responsibility for the operation of Riverview Estates Water Company.

5. Shawn Lewis must maintain the contract with Cranmer Engineering for two years from the effective date of this decision, to ensure that there will be sufficient technical expertise to ensure appropriate monitoring of the equipment, to perform routine maintenance and repairs, to collect water samples required by Tehama County or the California Water Resources Control Board, and to assist in preparation of periodic reports about the operation of the Riverview Estates Water Company.

6. Shawn Lewis must provide the Commission with at least 60-day notice before terminating the contract with Cranmer Engineering, so that the Commission may determine that any subsequent operator of the Riverview Estates Water Company has sufficient technical expertise to operate the Riverview Estates Water Company.

7. Application 15-05-018 is closed.

This order is effective today.

Dated _____, at San Francisco, California.