

PROPOSED RESOLUTION

Agenda ID# 22958

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5283

October 17, 2024

RESOLUTION

**(RES. W-5283) SEQUOIA CREST WATER COMPANY.
ORDER AUTHORIZING THE SALE AND ACQUISITION
OF SEQUOIA CREST WATER COMPANY BY SEQUOIA
CREST MUTUAL WATER COMPANY, A MUTUAL WATER
SYSTEM; AND THE REVOCATION OF SEQUOIA CREST
WATER COMPANY'S CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY AS A RESULT OF THE
ACQUISITION.**

SUMMARY

By Advice Letter (AL) No. 23-W, filed on October 11, 2023, Sequoia Crest Water Company (SCWC) requests Commission approval for the sale and acquisition of SCWC by Sequoia Crest Mutual Water Company (SCMWC), a mutual water system; and to revoke SCWC's Certificate of Public Convenience and Necessity (CPCN) as a result of the acquisition.

Pursuant to Public Utilities (PU) Code sections 851-854 and Resolution ALJ-272, this resolution approves the sale and acquisition of SCWC to SCMWC under the terms and conditions set forth in the Asset Purchase Agreement (APA) between SCWC and SCMWC. The APA was signed on August 23, 2023, by SCWC and SCMWC providing that SCMWC would purchase SCWC's water system for \$1.00. Accordingly, SCWC will no longer be a Commission regulated utility, and SCWC's CPCN will be revoked.

BACKGROUND

SCWC is a Class D investor-owned water utility with 62 active residential flat-rate service connections in the community of Sequoia Crest, the unincorporated area known as Tract No. 308 located approximately 24 miles northeast of the community of Springville, Tulare County. Sequoia Crest is primarily a "second residence" or part-

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time community primarily populated on weekends and major holidays. The median household income for Tulare County is \$64,474.¹

SCWC's water systems consists of two main pump wells which convey water to two steel storage tanks with 150,000- and 30,000-gallon capacities. Additionally, there are 26 fire hydrants and 34 control valves within the system. There are no commercial or industrial developments within the community.

Impact of the SQF Complex Fire

The SQF Complex Fire was a wildfire that burned in Tulare County from August 19, 2020, through January 6, 2021, and consumed approximately 175,000 acres of forest and developed land. As result of the fire, SCWC lost a 100,000-gallon redwood storage tank, and 48 homes in SCWC's service territory were destroyed. Prior to the fire, SCWC was able to provide safe and reliable water service to its customers. However, because of the number of homes destroyed during the fire, SCWC was no longer able to meet the water supply demand of the homes at its current post-fire operational level.

At this time, homes are being rebuilt and, to date, two homes have been completed and two are currently under construction. The remaining 44 vacant lots may be developed in the future depending upon market conditions and demand.

NOTICE AND PROTESTS

AL 23-W was served in accordance with General Order 96-B, on October 11, 2023, to adjacent utilities, and persons on the general service list. SCWC customers were sent notices of the sale on October 11, 2023.

No protests were received.

DISCUSSION

Proposed water utility ownership changes are reviewed under PU Code sections 851-854. PU Code sections 851-854 prohibit the sale or transfer of control of a public utility without prior approval of the Commission. Approval of the sale and purchase of SCWC by SCMWC may be obtained through the AL process since the transaction is valued at less than five million (\$5,000,000), is non-controversial, and does not require environmental review by the Commission as the Lead Agency under the California

¹ U.S. Census Bureau: Tulare County, California; Median household income (in 2022 dollars), 2018-2022

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Environmental Quality Act (CEQA).² This established process is reflected in General Order (GO) 173.

The Commission requires a test of ratepayer indifference when evaluating the sale of a public utility,³ and requires the buyer to demonstrate that the acquisition of the public utility yields a tangible benefit to the ratepayer.⁴ Using the ratepayer indifference test to assess the sale of SCWC, the Commission evaluated the following key metrics: (1) service quality; (2) continuity of service; and (3) the impact of the purchase price on rate base and rates.

Service Quality

SCWC was established in 1961 to treat and deliver water in the community of Sequoia Crest. Since 1961, the system has operated continuously and delivered safe and reliable treated water to customers. SCWC currently complies with the State Water Resources Control Board, (SWRCB) Division of Drinking Water (DDW) drinking water regulations as confirmed with DDW's Tulare District office.

SCWC's Ratepayers Transition to Shareholders of SCMWC

SCMWC includes all homeowners in the existing service territory, and those on vacant lots. Through this transfer of ownership from SCWC to SCMWC, the intention is to operate the water system as it was prior to the SQF Complex Fire. As a result of the fire, SCWC's revenues were reduced by approximately 50%. Currently, all vacant lots which have facilities in place pay an annual water assessment fee. Upon approval of this transition, the vacant lot owners without facilities in place will be assessed a water assessment fee of \$100 annually.

Upon completion of the transfer from SCWC to SCMWC, SCMWC expects to retire one of its existing surface water wells and replace the retired well with a new deep depth well. Currently, the existing well is operational but is located on land owned by Save the Redwoods League.⁵ In the interim, there is sufficient surface water to meet demand

² PU Code section 851 allows transfers or encumbrance of utility property for qualified transactions valued at five million (\$5,000,000) or less to be processed through an AL filing; ALJ-244, pg. 2.

³ Under the ratepayer indifference test, any sale of a public utility should not have any net consequences that cause the ratepayer to prefer the seller to the buyer.

⁴ See D.15-09-015 at 6; D.15-08-036 at 4, D.05-04-047 at 9-11; D.04-01-066 at 8-11; and D.01-09-057 at 26-28.

⁵ Save the Redwoods League is a nonprofit organization whose mission is to protect and restore coast redwood and giant sequoia trees through the preemptive purchase of development rights of notable areas with such forests.

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requirements. However, when the existing well is utilized, it requires chlorine treatment to mitigate potential surface water bacteria. The replacement well, which will be fully funded by Save the Redwoods League, will be a deep depth well with an annular surface seal in compliance with Tulare County's standards, and thus represents an improvement in water supply and quality. The existing well will then be capped, removed from service, and abandoned. Additionally, a new Supervisory Control and Data Acquisition (SCADA) monitoring and control system will be added.

Qualifications of SCMWC

The proposed SCMWC organizational chart provided with AL 23-W includes a vast array of property owners with professional knowledge and experience which will be beneficial to the customers. The President of the Board of Directors, Michael Camarena, was the former Director of Public Works for the City of Lindsay, whose duties included the oversight of operations of a 2.5 MGD (million gallons per day) water distribution system, treatment of both ground and surface water, and a 1.5 MGD sewer collection and treatment system. Additionally, Mr. Camarena maintains both a licensed water treatment operator certification (D2), water distribution operator certification (T2), and has been a Sequoia Crest property owner for over 30 years.

Additional Board of Directors members and contract staff include the Vice President, a Sequoia Crest property owner of 18 years, and a retired information systems manager with 34 years of experience in the information and technology systems; the Secretary, a property owner of 20 years, and a licensed real estate agent with a background in information systems; the Treasurer, a property owner of 26 years, and a Certified Public Accountant; and three other members with experience in the fields of civil engineering, solid waste management, construction management, and water and sewer operations.

Continuity of Service and Impact on Rate Base and Rates

Upon execution of the APA, SCWC is required to obtain approval for the sale from the Commission. The APA states that "the total purchase price for all property to sold by Seller to Buyer shall be the sum of One and No/100 Dollars (\$1.00)". SCWC is essentially contributing the regulated water company to SCMWC, the mutual water system. Therefore, this entity will no longer be a regulated utility under the Commission's jurisdiction. There will be no impact on rate base, and current rates will not change upon the transfer of SCWC to SCMWC. However, the ratepayers have been informed that any potential changes to rates and assessments in the future will be determined by SCMWC.

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WD staff's review and analysis of the sale and acquisition of SCWC to SCMWC shows that it meets the ratepayer indifference test; is reasonable; is in the public interest; and provides a tangible benefit for the customers of SCWC.

CEQA Review

CEQA review is not required by the proposed sale. 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."⁶ Pursuant to this review, the WD has determined that CEQA does not apply as this advice letter filing involves only a transfer of ownership of the existing water facilities and no new construction or changes in the source of water supply are being proposed. There is no evidence of any other changes in the operation of SCWC, and accordingly, approval of this AL is not a CEQA project and there is no possibility that the transaction may have any significant effect on the environment.⁷ As such, the approval of AL 23-W is exempt from CEQA.

Permit Requirement

Pursuant to the provisions of California Health and Safety Code (CH&S) section 116525(a), SWRCB requires any person or entity operating a public water system to obtain a domestic water supply permit (permit) to operate that water system. Accordingly, the transfer of operations of SCWC's water system to SCMWC should be conditioned on SCMWC obtaining the required permit to permanently operate the water system under the new ownership.

ENVIRONMENTAL AND SOCIAL JUSTICE

In February 2019, the Commission adopted an Environmental and Social Justice Action Plan (ESJ Action Plan) to serve as a roadmap to expand public inclusion in Commission decision-making processes to targeted communities across California. The ESJ Action Plan establishes a series of goals related to health and safety, consumer protection, program benefits, and enforcement in all the sectors the Commission regulates. On

⁶ CEQA Guidelines, CALIFORNIA CODE OF REGULATIONS TITLE 14, Sections 15378(a) (2003)

⁷ CEQA Guidelines, CALIFORNIA CODE OF REGULATIONS TITLE 14, Section 15061(b)(3) "A project is exempt from CEQA if...it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment...").

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April 7, 2022, the Commission adopted Version 2.0 of the ESJ Action Plan to guide its decisions and determine that its broad regulatory authority continues to advance equity throughout the state. With this Resolution, the Commission addresses two goals of the ESJ Action Plan: Goal #1: “Consistently integrate equity and access considerations throughout Commission regulatory activities,” and Goal #3: “Strive to improve access to high-quality water, communications, and transportation services for ESJ communities.”

Although the Sequoia, CA area proposed for consolidation is not classified as a disadvantaged community, the WD considered equity and access considerations through its review of the proposed transaction in this resolution. The California Communities Environmental Health Screening Tool, Version 4 (CalEnviroScreen 4.0)⁸ provided by the California Environmental Protection Agency, identifies disadvantaged communities by collecting multiple metrics and outputting a single value at the census tract scale. CalEnviroScreen 4.0 ranks Sequoia Crest in the 46th percentile of the highest scoring census tracts statewide, the census tract then increases into the 100th percentile for Drinking Water and falls further to the 50th percentile for Groundwater Threats. Given WD’s review of these current definitions and considerations, the proposed acquisition of SCWC by SCMWC is expected to improve the existing conditions for customers within the Sequoia Crest area.

COMPLIANCE

SCWC has no outstanding compliance issues, and the utility has been filing annual reports as required. DDW issued its last Sanitary Survey report on December 6, 2021. SCWC currently complies with DDW’s water quality standards for safe drinking water and there are no pending or outstanding violations. WD also conducted a review of SCWC’s last financial audit report⁹ prepared by the Commission’s Utility Audits Branch and found no outstanding compliance issues.

Pursuant to PU Code section 433(a), public utilities are required to pay an annual Public Utilities Reimbursement Fee (annual fee) to the Commission. WD confirmed with the Commission’s Fiscal Office that SCWC is current with its annual fee payments.

⁸ <https://oehha.ca.gov/calenviroscreen/report/calenviroscreen-40>

⁹ See *Financial Audit of Sequoia Crest Water Company U-264-W Financial Statements for the Years Ended March 31, 2011 and 2010*, March 21, 2013.

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UTILITY SAFETY

Safety for water utilities considers several factors such as water quality, system design, operation and maintenance, and service. One of the highest safety priorities for the Commission is ensuring that water utilities serving water for human consumption provide water that is not harmful or dangerous to health. As noted in the Compliance section of this resolution, SCWC complies with all SWRCB water quality standards for safe drinking water.

CONCLUSION

Pursuant to PU Code sections 851-854, the Commission finds that the sale of SCWC is in the public interest and does not warrant a more comprehensive review than would be provided through a formal PU Code section 851 application. This sale should be approved, conditioned upon SCMWC obtaining the domestic water supply permit from DDW. The sale of SCWC will relieve the utility of its duty to provide regulated utility water service to its customers and SCWC's CPCN should be revoked.

COMMENTS

PU Code section 311(g)(1) provides that resolutions must generally be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

There were no protests or concerns received from the parties on the service list of AL 23-W when the advice letter was served on October 11, 2023. This is an uncontested matter that pertains solely to a water corporation in which the resolution grants the relief requested.

Accordingly, pursuant to PU Code section 311(g)(3), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. By Advice Letter (AL) 23-W filed on October 11, 2023, Sequoia Crest Water Company (SCWC) requests CPUC approval for the sale and acquisition of SCWC to Sequoia Crest Mutual Water Company (SCMWC), a mutual water system; and to revoke SCWC's Certificate of Public Convenience and Necessity (CPCN) as a result of the acquisition.

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2. SCWC is a Class D water utility with 62 active residential flat-rate service connections.
3. On August 30, 2023, the “Asset Purchase Agreement” was signed by SCWC and SCMWC providing that SCMWC would purchase SCWC’s water system for \$1.00.
4. AL 23-W was served in accordance with General Order 96-B, on October 11, 2023, to adjacent utilities and persons on the general service list. SCWC customers were sent notices of the sale on October 11, 2023. No protests were received.
5. The sale and acquisition of SCWC to SCMWC meets the ratepayer indifference test; is reasonable; is in the public interest; and provides a tangible benefit for the customers of SCWC.
6. The sale and acquisition of SCWC to SCMWC does not involve a project under CEQA, and there is no possibility that the transaction may have any significant effect on the environment. The approval of AL 23-W is exempt from CEQA.
7. SCWC has no outstanding compliance orders and the utility has been filing annual reports as required.
8. The Water Division confirmed with the CPUC’s Fiscal Office that SCWC is current with its annual fee payments.
9. The transfer of operations of SCWC’s water system to SCMWC should be conditioned on SCMWC obtaining the domestic water supply permit required by DDW to operate the water system under the new ownership.
10. Pursuant to Public Utilities Code sections 851-854, the sale of SCWC to SCMWC is in the public interest and should be approved.
11. The sale of SCWC will relieve SCWC of its duty to provided regulated water service to its customers and SCWC’s Certificate of Public Convenience and Necessity should be revoked after the sale transaction closes as SCWC will no

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longer be a Commission-regulated utility, and SCMWC receives the required domestic water supply permit.

THEREFORE, IT IS ORDERED THAT:

1. Pursuant to Public Utilities Code sections 851-854, this Resolution approves the sale and acquisition of Sequoia Crest Water Company by Sequoia Crest Mutual Water Company under the terms and conditions set-forth in the August 30, 2023, purchase agreement between Sequoia Crest Water Company and Sequoia Crest Mutual Water Company.
2. The permanent transfer of operations of Sequoia Crest Water Company's water system to Sequoia Crest Mutual Water Company is conditioned on Sequoia Crest Mutual Water Company obtaining the required domestic water supply permit required by the State Water Resources Control Board's Division of Drinking Water to operate the water system under the new ownership.
3. Within ten (10) days of closing the purchase and sale transaction, Sequoia Crest Water Company shall notify the Commission of the date the transaction closes by mailing or emailing a letter to the Director of the Water Division.
4. Sequoia Crest Water Company shall be relieved of its public utility obligation effective on the closing of the sale transaction and receipt of the required domestic water supply permit by Sequoia Crest Mutual Water Company. Sequoia Crest Water Company's Certificate of Public Convenience and Necessity shall be revoked at that time.
5. The presently effective tariffs of Sequoia Crest Water Company shall be cancelled effective on the date the purchase and sale transaction of Sequoia Crest Water Company closes.

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held October 17, 2024; the following Commissioners voting favorably thereon:

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Rachel Peterson
Executive Director

ALICE REYNOLDS
President
DARCIE HOUCK
JOHN REYNOLDS
KAREN DOUGLAS
MATTHEW BAKER
Commissioners

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Sequoia Crest Water Company

55124 Redwood Drive
Springville, CA 93265

ADVICE LETTER 23-W SERVICE LIST

Recipient #1

Alpine Village Water Company
P.O. Box 908
Porterville, CA 93258

Recipient #2

Tulare County Health & Human Services
5957 South Mooney Blvd.
Visalia, CA 93277-9394