



# California Small Companies Positioning for Sale

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# Small Company Acquisition Incentives

- SB1268, The Public Water System Investment And Consolidation Act Of 1997
- Decision 99-10-064 – Order Instituting Rulemaking on the Commission’s Own Motion to Set Rules and to Provide Guidelines for the Acquisition and Mergers of Water Companies



## SB1268, The Public Water System Investment And Consolidation Act Of 1997\*

“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.” (emphasis added)

\* Now Public Utilities Code § 2720



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Fair market value of the “Distribution System” means the replacement cost less accrued depreciation.

\* Now Public Utilities Code § 2720



# SB1268, The Public Water System Investment And Consolidation Act Of 1997\*

“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.” (emphasis added)

Also applies to sewer systems acquired by any sewer system corporation or water corporation

\* Now Public Utilities Code § 2720



## SB1268, The Public Water System Investment And Consolidation Act Of 1997\*

“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.”  
(emphasis added)

water corporation: "every corporation or person owning, controlling, operating, or managing any water system for compensation"  
Public Utilities Code § 241

\* Now Public Utilities Code § 2720



Decision 05-03-008, March 18, 2005

Transfer Stock of YERBA BUENA WATER COMPANY  
to Crown Pointe Estates at Malibu, LLC

“Yerba Buena’s depreciated rate base will be the Commission’s basis for ratemaking and **the cost paid for the system in excess of rate base will not be considered in setting rates.**” (emphasis added)



Decision 05-03-008, March 18, 2005

Transfer Stock of YERBA BUENA WATER COMPANY  
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Crown Pointe  
Estates is not a  
Water  
Corporation

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## Decision 99-10-064

How does the “water corporation” buyer benefit from acquiring your utility?



# Decision 99-10-064

Incentives Currently Available To Small Companies	Incentives Available To Acquirer After Acquisition of Small Companies
Applicability of incentives	Limited to an “inadequately operated and maintained utility”
Memorandum account for expenses associated with unanticipated repairs	Limited to seven Years after acquisition
Design rates to recover up to 100% of fixed costs in the service charge	Limited to seven Years after acquisition
CPI Offsets	Limited to seven Years after acquisition



# Decision 99-10-064

Incentives Currently Available To Small Companies	Incentives Available To Acquirer After Acquisition of Small Companies
\$2,000 facilities fee	No
Offsets for extraordinary capital expenditures	No
Service Guarantee Plan	No
Late Payment Fee	No



# Decision 99-10-064

Other Incentives	Incentives Available To Acquirer After Acquisition of Small Companies
If acquired for less than book value, earn on 50% of the discount	Only for an “inadequately operated and maintained utility”  Purchase price includes costs incurred to complete the acquisition



# Decision 99-10-064

Incentives Currently Available To Small Companies	Incentives Available To Acquirer After Acquisition of Small Companies
Rate Base Method of Ratesetting	
Rate of Return Applicable to that permitted for Class C and Class D utilities	Limited to seven Years after acquisition
Capital structure assumed to be 100% equity, regardless of actual method of financing	No
Rate of Margin alternative method available	No





# Positioning Your System For Sale

## Do's

- Clean up. Get you books in order. Know what you are going to sell.
- Prepare for due diligence
- Formulate a package of materials to assist potential buyers (bid package)
- Get a GRC rate increase (routinely apply for CPI increases, offsets, GRC's etc.)
- Clearly state water quality problems
- Have a good crew, keep them together, keep them informed, **KEEP THEM EMPLOYED**
- Delegate responsibility
- Get current on SDWBA and SRF loans



# Positioning Your System For Sale

## Do's

- Know the value of your utility
- Prequalify your buyer
- Make needed infrastructure replacements
- Maintain facilities
- Focus employees on short term objectives
- Challenge employees, keep them busy
- Be a role model, inspire others
- Expect a drop in productivity. It's natural in stressful times
- Expect some resistance to change
- Avoid being sidetracked by low priority issues



# Positioning Your System For Sale

## Don't's

- Tell others too early or too late
- Isolate yourself from employees
- Cut yourself off from relevant information
- Exaggerate differences between your company and your acquirer
- Unreasonably price your system (too high or too low)
- And don't forget that CPUC approval is required



## What if Your System is Distressed?

- Threshold Question: Can Your System Be Sold?
- Who is the Decision-maker, you or the bank?
- How is a distressed small company valued?
- What do you have to sell? (May not be obvious)
- What is CPUC's role in receivership?
- Is there an obvious buyer?



# Small Companies Given Away

<u>Date Transferred</u>		<u>System Transferred</u>	<u>Transferred To</u>	<u>Customers Transferred</u>
7/14/00	Water	Metropolitan Water Company	Watertek	29
1/25/01	Sewer	Cypress Ridge Development Corp.	Rural Water Company	386
10/17/02	Water	Central Valley Water Company	City of Dinuba	91
12/14/03	Water	Curtis Water Company	County of Kings	128
6/9/05	Water	Greenbelt Water Company	Puresource Water, Inc.	79
2/8/06	Water	Land of Promise Water System	City of Bellflower	62
8/6/07	Water	Cottage Springs Water Company	Cottage Springs Real Estate, LLC	16
1/26/09	Water	San Jerardo District (Alco)	County of Monterey	50





# What is Your System Worth?

- Make sure your system description in your annual reports is correct.
- Price your distribution system at today's rates, including land. Verify as best you can.
- List your other assets.
- Price your other assets.
- Total Value of your system.
- Calculate Rate impact
- Determine reasonable rates
- Adjust Sales price accordingly

\$ \_\_\_\_\_

\$ \_\_\_\_\_

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# What is Your System Worth?

- Determine your needed level of involvement.
- Add information about staff and suppliers.

