

Decision No. 44535

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of BARTON F. MCGLOTHLEN and MARY JANE MCGLOTHLEN, doing business as Pioneer Gardens Water Company, to sell, and Pioneer Gardens Water Company, a California corporation, to purchase, the public utility water corporation business of sellers, and of Pioneer Gardens Water Company, a California corporation, to issue stock.

Application No. 31559

O P I N I O N

This is an application for an order authorizing Barton F. McGlothlen and Mary Jane McGlothlen, hereinafter referred to as Sellers, to sell their public utility water system to Pioneer Gardens Water Company, a corporation, and authorizing said corporation to issue \$175,000 par value of its capital stock.

The application shows that Sellers, doing business as Pioneer Gardens Water Company, are engaged in supplying water in San Bernardino County east of the City of San Bernardino. Their financial reports to the Commission for the last five years show that their operating revenues have increased from \$10,434 in 1945 to \$31,011 in 1949 and their consumers from approximately 560 to approximately 1,390. For the year 1949 and the first five months of 1950, Sellers report the following:

	<u>1949</u>	<u>5 Months 1950</u>
Operating revenues	\$31,011	\$20,931
Operating expenses	<u>39,020</u>	<u>16,915</u>
Net operating revenues before Federal taxes	<u>\$(8,009)</u>	<u>\$ 4,016</u>

By Decision No. 43463, dated November 1, 1949, the Commission entered an interim order on Application No. 29418 authorizing certain increases in rates. A final order has not yet been made on said application.

Sellers' water system at the close of 1949, according to their annual report, included twenty wells, a concrete reservoir with a capacity of 90,000 gallons, ten tanks with an aggregate capacity of 108,150 gallons, and 124,430 feet of pipe lines ranging in diameter from one inch to twelve inches. Information before the Commission in this, and in earlier proceedings, indicates that Sellers' records pertaining to their investment in water properties are incomplete and do not reflect the original cost. The opinion in said Decision No. 43463 shows that Sellers have retained the services of engineers to appraise the cost of their properties and that the Commission's staff also is engaged in making such an appraisal. The complete results of these studies, however, are not available at this time.

In the present proceeding, Sellers have submitted a balance sheet, as of May 31, 1950, which includes fixed capital figures based on tentative appraisal data as of December 31, 1948, plus additions and betterments, which have been arrived at in developing information to be presented in further hearings on said Application No. 29418. On this basis, the balance sheet shows assets and liabilities as follows:

<u>Assets</u>		
Current assets-		
Cash	\$ 94.76	
Notes receivable	2,274.66	
Accounts receivable	762.84	
Materials and supplies	<u>2,102.74</u>	
Total current assets		\$ 5,235.00
Fixed capital		249,931.56
Non-operating property		11,308.50
Prepayments		<u>7,699.48</u>
Total Assets		<u>\$274,174.54</u>

<u>Liabilities</u>		
Current liabilities-		
Notes payable	\$5,000.00	
Accounts payable	7,633.20	
Taxes payable	225.48	
Contracts payable	<u>1,817.48</u>	
Total current liabilities		\$ 14,676.16
Trust deeds		24,889.08
Consumers' advances for construction		1,754.21
Reserve for depreciation (estimated)		43,600.00
Investment		<u>189,255.09</u>
Total Liabilities		<u>\$274,174.54</u>

A review of said Decision No. 43463 indicates that poor service conditions have existed in the operation of this water system. Sellers report that they are engaged in making changes and improvements and that they intend to enter into arrangements for additional financing which should enable them to give better service and to improve customer relations. It appears that they are of the opinion that service more effectively can be conducted, financed and improved under a corporate organization and that accordingly they have caused the organization of Pioneer Gardens Water Company, a corporation, to take over the properties and to continue the water operations.

At this time, it is proposed that the new corporation issue \$175,000 par value of stock, against the reported investment of \$189,255.09 as shown on the pro forma balance sheet, and that later, following the completion of the appraisals now in progress, a supplemental application will be filed for permission to issue

stock up to the full net worth as determined by such appraisals.

On the basis of the information submitted in this proceeding, and in Application No. 29418, it appears to the Commission that the proposed sale of the water system will not be adverse to the public interest. An order will be entered authorizing the sale as proposed, and, due to the present incomplete information concerning the investment in the system, authorizing the issue at this time of only \$175,000 of stock. Upon being fully advised as to the original cost of the properties, estimated if not known, and the reserve requirement, the Commission will give consideration to the request to issue additional stock and will indicate the amounts which the corporation should charge to its fixed capital accounts and credit to its reserve for depreciation. The action taken at this time shall not be construed to be a finding of value of the properties herein authorized to be transferred.

In order to expedite the development of the program referred to in this application the order herein will be made effective on its date.

#### O R D E R

The Commission having considered this application and being of the opinion that a public hearing thereon is not necessary, that the requests of applicants should be granted to the extent indicated herein, that the money, property or labor to be procured or paid for through the issue at this time of \$175,000 par value of stock is reasonably required for the purpose specified herein and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Barton F. McGlothlen and Mary Jane McGlothlen, after the effective date hereof and on or before September 30, 1950, may sell to Pioneer Gardens Water Company, a corporation, the water system referred to in this proceeding.

2. Pioneer Gardens Water Company, a corporation, after the effective date hereof and on or before September 30, 1950, in part payment for said water system, may issue not exceeding \$175,000 par value of its capital stock and assume the payment of the outstanding indebtedness referred to in the preceding opinion.

3. The authority herein granted is subject to the following conditions:

a. That, if the authority herein granted is exercised, Barton F. McGlothlen and Mary Jane McGlothlen within thirty (30) days thereafter, shall file with this Commission a certified copy of the final instrument of conveyance and also a written statement indicating the date on which control and possession of said water system were relinquished.

b. That on or before the date of actual transfer, Barton F. McGlothlen and Mary Jane McGlothlen shall refund all deposits which customers are entitled to have refunded; that any unrefunded deposits shall be transferred to and become the obligation for refund by Pioneer Gardens Water Company; and that Barton F. McGlothlen and Mary Jane McGlothlen shall file with this Commission within thirty (30) days after date of transfer, a written statement showing the disposition of any such deposits, or showing that no deposits existed.

c. That upon compliance with the conditions of this order of the Commission, said Barton F. McGlothlen and Mary Jane McGlothlen shall be relieved of all public utility obligations and liabilities in connection with said system.

d. That the rates of Barton F. McGlothlen and Mary Jane McGlothlen, now legally on file with this Commission shall be refiled, within thirty (30) days from the date of transfer, by and under the name of Pioneer Gardens Water Company, in accordance with the procedure prescribed by General Order No. 96, or, in lieu of such refiled, Pioneer Gardens Water Company may file a notice of adoption of said presently filed rates. No increases in the present lawfully filed rates shall be made unless otherwise properly authorized by this Commission.

e. That Pioneer Gardens Water Company, within thirty (30) days from the date of transfer, shall file with this Commission four sets of rules and regulations governing customer relations, each set of which shall contain a suitable map or sketch drawn to an indicated scale upon a sheet 8½ x 11 inches in size, delineating thereupon by distinctive markings the boundary of the service areas and the location thereof with reference to the immediate surrounding territory, provided, however, that such filing shall not be construed as a final or conclusive determination or establishment of the dedicated areas of service or portion thereof.

f. That Pioneer Gardens Water Company, within thirty (30) days from the date of transfer, shall file four copies of a comprehensive map drawn to an indicated scale of not less than 400 feet to the inch, delineating by appropriate markings the various tracts of land and territory served by it.

g. That Pioneer Gardens Water Company, within thirty (30) days after acquiring said water system and issuing said stock, shall file a report as required by General Order No. 24-A and a report showing the journal entries by which it recorded on its books the acquisition of said system.

4. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 18<sup>th</sup> day of July, 1950.

Q. E. D. [Signature]  
Justin F. Caswell  
[Signature]  
Harold P. Hicks  
Kenneth F. Potter  
Commissioners