

ORIGINAL

Decision No. 47092

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
UEHLING WATER CO., INC., a California	:	
Corporation, and CASA VENIDA WATER)	
COMPANY, a California Corporation, for	:	
an Order to Transfer the Water System)	Application
and to Issue a Secured Note as Partial	:	No. 33219
Payment therefor under Section 51 (a))	
of The Public Utilities Act and Section	:	
851 of The Public Utilities Code and)	
to Issue 204 Shares of the Common Stock	:	
of Casa Venida Water Company.)	
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Donald R. Wright, for Casa Venida Water Company;
Fred Uehling, for Uehling Water Co., Inc.

O P I N I O N

Uehling Water Co., Inc. is a corporation engaged in supplying water for domestic purposes to customers in unincorporated territory in the County of Los Angeles near the City of Compton. In this proceeding it seeks authorization to sell and transfer its water system to Casa Venida Water Company for the sum of \$90,400.

Casa Venida Water Company is a new corporation organized on January 29, 1952. It seeks authorization to issue \$20,400 of stock and a \$70,000 note to finance the purchase price of the properties it proposes to acquire, the note to be payable in monthly installments of \$583.33, or more, with interest at the rate of 5% per annum, and to be secured by a real estate mortgage.

Recently, the Commission has reviewed the operations of Uehling Water Co., Inc. By Decision No. 45537, dated April 3, 1951, it authorized certain increases in rates for this company which were designed to produce a return of 5.94% on a depreciated rate base of \$65,000. The decision of the Commission shows the historical cost of

the properties comprising the water system, as estimated by the company, at \$85,622.80 as of December 31, 1950, and the depreciation reserve requirement at \$26,027.75, a net balance of \$59,595.05. The Commission authorized the company to place these figures on its books and subsequently, by Decision No. 45737, dated May 22, 1951, approved journal entries adjusting the accounts to reflect this historical cost estimate.

In the agreement now made for the sale of the properties, applicants report the net value thereof at \$61,350.61 as of December 31, 1951. In commenting on the proposed purchase price of \$90,400, a witness called on behalf of the purchaser testified that such price was the amount agreed upon for the purpose of the sale, that it was not related to the reported value set forth in the application, and that in fact it reflected present market prices. The total amount of the proposed security issue is based on the agreed purchase price.

In passing on an application to issue securities, the Commission is required to make a finding that, in its opinion, the money, property or labor to be procured or paid for by the issue is reasonably required for the purpose specified in the Commission's order, which in this case would be for the purchase of the water system, and that, in its opinion, such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income. (Section 818, Public Utilities Code.)

In our opinion, we cannot make such a finding with respect to the reasonableness of the issue of \$90,400 of securities in payment for properties for which applicants themselves report a net value of \$61,350.61, nor a finding that the transaction, under the terms indicated, will not be adverse to the public interest. While it may be true that the purchaser is willing to pay the agreed price, nevertheless we are called upon to approve a financial structure in a total

amount substantially in excess of the reported value of the properties and in excess of the rate base so recently employed by the Commission in fixing this utility's rates. A structure such as is here proposed, wherein the indebtedness alone is in excess of either the reported value or the rate base, and which indebtedness is secured by a first mortgage on the water properties, could adversely affect the ability of the new company to obtain funds, either from income or from external sources, to improve and maintain its service and facilities, to meet its carrying charges, and to provide the cost of additions and extensions to the system.

In view of the fact that we are unable to make the findings required by law, we are compelled to deny this application.

ORDER

A public hearing having been held on the above entitled matter and the Commission having considered the application and the testimony presented and being fully advised in the premises,

IT IS HEREBY ORDERED that Application No. 33219 be, and it hereby is, denied without prejudice.

Dated at San Francisco, California, this 5th day of May, 1952.

A. I. [Signature]
President
Justice F. [Signature]
Harold P. [Signature]
[Signature]
[Signature]
Commissioners