

and other facilities used in supplying water in and about West Covina. In Exhibit F attached to Application No. 33349, Sellers report their investment in tangible and intangible capital, as of December 31, 1951, at \$99,322.41, after deducting related reserves for depreciation and amortization, and in current assets at \$4,953.01, a total of \$104,275.42, and their outstanding liabilities at \$38,032.48.

The agreement for sale provides for the transfer by Sellers to San Jose of all notes and accounts receivable and cash in bank belonging to the business of Sunkist Water Company as reflected by the books on December 31, 1951, and for the assumption by San Jose of the outstanding indebtedness as of that date. The agreement further provides for the payment by San Jose of the sum of \$80,295.64, of which \$55,795.64 will be in cash and \$24,500 in shares of San Jose's 5-1/4% preferred stock.

To obtain the cash payment of \$55,795.64 and to meet other requirements, San Jose has made, or is making, arrangements to borrow \$300,000 from Bankers Life Insurance Company of Nebraska, said sum to be represented by a note due on April 1, 1970, with interest at the rate of 5-1/2% per annum. The payment of the note will be secured by a mortgage of chattels which, among other things, will provide for prepayment of the indebtedness at the option of the mortgagor and for the creation of a sinking fund in the annual amount of \$12,000 commencing April 1, 1954. San Jose intends to use the proceeds from the issue of the note for the following purposes:

To purchase Sunkist Water Company and to pay indebtedness to Reconstruction Finance Corporation	\$ 59,544.56
To pay bank loans	45,000.00
To liquidate accounts payable	44,996.24
To build a reservoir	60,000.00
To install mains	57,900.00
To install approximately 800 services	<u>32,559.20</u>
Total	<u>\$300,000.00</u>

San Jose was incorporated on June 27, 1944, and is engaged in operating water systems known as the Puente System, the South Covina System, the Highland System and the Glendora System. Its annual reports to the Commission indicate the growth of its properties and business as follows:

	<u>Fixed Capital</u> <u>Dec. 31</u>	<u>Operating</u> <u>Revenues</u>	<u>Net Oper.</u> <u>Revenues</u>	<u>Connections</u> <u>Dec. 31</u>
1945	\$ 19,783.58	\$ 308.07	\$(427.07)	42
1946	113,517.12	2,830.80	1,174.14	135
1947	244,268.04	11,355.04	(1,639.48)	533
1948	337,118.06	25,468.59	639.28	935
1949	362,587.70	37,844.78	4,375.44	1,252
1950	494,891.04	48,975.32	2,920.16	1,579
1951	624,365.56	75,885.92	7,701.68	2,259

In taking over the Sunkist Water Company it is acquiring approximately 550 service connections in an area contiguous to its present operations. In Exhibit K attached to Application No. 33349 it sets forth a pro forma balance sheet, giving effect to the acquisition of the Sunkist properties and to the issue of the note and of shares of preferred stock, which shows assets and liabilities as follows:

Assets

Current assets	\$ 42,081.11
Tangible and intangible capital, less related reserves	921,407.69
Stock of other companies	9,985.00
Cost of Sunkist Water Company in excess of book cost	<u>14,204.36</u>
Total	<u>\$987,678.16</u>

Liabilities

Current liabilities	\$ 28,491.25
Mortgage--Insurance Company	300,000.00
Consumers' advances for construction	260,519.46
Donations in aid of construction	15,898.11
Preferred stock -	
Class A 5-1/4%	\$124,500.00
Class B 3%	<u>160,000.00</u>
Common stock equity capital	<u>98,269.34</u>
Total	<u>\$987,678.16</u>

In Exhibit L, San Jose presents a pro forma statement of consolidated operations for 1952, which shows estimated operating

revenues of \$133,686.30, operating expenses, depreciation and amortization charges of \$24,649.05, interest and taxes, in the amount of \$114,012.97, and net income of \$19,673.33. The estimated dividend requirements on the preferred stock are shown at \$9,562.50, leaving a balance of \$10,110.83 available for equity capital.

A review of the applications indicates that the proposed transfer will not be adverse to the public interest and that San Jose's assets and earnings should be ample to support the proposed issues of securities. It is noted, however, that San Jose intends to set up on its books a debit balance of \$14,204.36 representing the excess of its purchase price over the net book value of the assets to be acquired from Sellers. In our opinion, such an account should not remain on the books permanently and as part of our order in these proceedings we will require San Jose to undertake the amortization of the amount over a period of not exceeding seven years by charges to income or to surplus.

O R D E R

The Commission having considered the above entitled matters, and being of the opinion that public hearings thereon are not necessary; that the applications should be granted, as herein provided; that the money, property or labor to be procured or paid for by the issue of the note and stock herein authorized is reasonably required by applicants for the purposes specified herein; and that such purposes, except as otherwise permitted in the case of said note, are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Ruskin T. Gardner and Alice F. Gardner, doing business as Sunkist Water Company, after the effective date hereof and on or before August 31, 1952, may sell and transfer the assets of their public utility water system to San Jose Hills Water Company under the terms and conditions of the agreement of sale dated March 31, 1952, filed as Exhibit C in Application No. 33349. San Jose Hills Water Company may purchase said assets and assume the payment of outstanding liabilities as set forth in said agreement.

2. San Jose Hills Water Company, after the effective date hereof and on or before August 31, 1952, may issue not exceeding 245 shares of its 5-1/4% preferred stock, of the aggregate par value of \$24,500, in part payment for said assets.

3. The action taken herein shall not be construed to be a finding of the value of the properties herein authorized to be transferred.

4. On or before the date of actual transfer, Ruskin T. Gardner and Alice F. Gardner, doing business as Sunkist Water Company, shall refund all deposits which customers are entitled to have refunded. Any unrefunded deposits shall be transferred to and become the obligation for refund of San Jose Hills Water Company.

5. The rates, rules and regulations of Ruskin T. Gardner and Alice F. Gardner, doing business as Sunkist Water Company, now on file with the Commission, shall be refiled within thirty (30) days after the date of transfer under the name of San Jose Hills Water Company, in accordance with the procedure prescribed by General Order No. 96, or, in lieu of such refiling, San Jose Hills Water Company may file a notice of adoption of said presently filed rates, rules and regulations. No increase in the present rates shall be made unless authorized by the Commission.

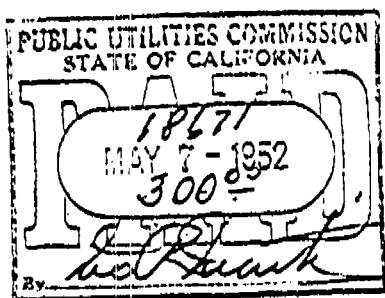
6. San Jose Hills Water Company, after the effective date hereof and on or before August 31, 1952, may issue a promissory note in the principal amount of not exceeding \$300,000 pursuant to the terms of the loan agreement dated April 1, 1952, filed as Exhibit B in Application No. 33348, and use the proceeds for the purposes set forth in said application, and may execute a mortgage of chattels in, or substantially in, the same form as that filed as Exhibit D in said application.

7. San Jose Hills Water Company shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

8. San Jose Hills Water Company shall record in its books the fixed capital and depreciation reserve accounts of Sunkist Water Company. It shall charge the excess of its purchase price over the net book cost of the assets acquired by it under the authority herein granted to a deferred debit account and thereafter amortize the same over a period of not exceeding seven (7) years, beginning in 1952, by charges to income or to surplus.

9. The authority herein granted to issue a note and to execute a mortgage will become effective when San Jose Hills Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is three hundred (\$300.00) dollars. In other respects, this order will become effective twenty (20) days after after the date hereof.

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



Handwritten signatures of the President and Commissioners.