

ORIGINAL

Decision No. 47100

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of)
)
 SOUTHERN CALIFORNIA WATER COMPANY)
 and MARTIN AND GOOLD WATER CORPORATION)
)
 for an order (a) authorizing Southern)
 California Water Company to acquire all)
 of the properties, and to assume all of)
 the liabilities, of Martin and Goold)
 Water Corporation, and to consolidate)
 the territories served by such properties)
 with the Walnut Grove service area of)
 Southern California Water Company;)
 (b) authorizing Martin and Goold Water)
 Corporation to convey and transfer all)
 of its properties to Southern California)
 Water Company; and (c) authorizing)
 Southern California Water Company to)
 render, and Martin and Goold Water)
 Corporation to discontinue rendering,)
 public utility water service in the)
 territory now served by Martin and)
 Goold Water Corporation.)
 -----)

Application
No. 32986
(and Amendment)

O'Melveny & Myers, by F. N. Edwards and L. M. Wright, for applicants; T. Stein, for the Commission's staff.

O P I N I O N

In this proceeding the Commission is asked to make its order authorizing the transfer of the properties of Martin and Goold Water Corporation to Southern California Water Company.

The record shows that Martin and Goold Water Corporation was organized by Earl Martin and J. M. Goold in 1940 to take over and operate water properties now serving a portion of Los Angeles County near Temple City and Arcadia; that Southern California Water Company acquired all the outstanding stock of said corporation on March 15, 1950; and that now it is proposed for the corporation to be dissolved and its assets and liabilities distributed to the sole stockholder,

such transaction to be made effective as of January 1, 1952.

In Exhibit A, attached to the amended application, Martin and Goold Water Corporation reports its fixed capital accounts in the aggregate amount of \$401,882.42 and its depreciation reserve at \$73,045.70, a net investment of \$328,836.72. Southern California Water Company, however, has caused an historical cost study to be made of the properties and has presented a summary of the same showing estimated historical costs of \$438,222.02 and estimated reserve requirements of \$54,908.24, or a net value of \$383,313.78. It proposes, and asks authorization, to place these revised figures on its books upon acquiring the properties. This proposal would result in increasing the net book value of the properties by the sum of \$54,477.06.

The record shows that the excess of \$36,339.60 in the estimated historical costs over the recorded figures for fixed capital is due, primarily, to the application of overheads at 12% to book figures in preparing the appraisal figures. A witness called on behalf of Southern California Water Company testified that differences in inventory quantities were minor, that the books of Martin and Goold Water Corporation fairly reflect costs, exclusive of overheads, and that the increases in the fixed capital figures now proposed, in effect, represent differences between the charges Martin and Goold Water Corporation made, prior to the time its stock was acquired by the present holder, and the charges Southern California Water Company would have made under its practices of recording capital costs. The proposed reduction in the depreciation reserve requirement is due to a recalculation based on lives used by Southern California Water Company which, in general, appear to be longer than those formerly used by Martin and Goold Water Corporation.

Upon acquiring the properties, as here proposed, Southern California Water Company intends to consolidate the operations with those of its Walnut Grove service area into a district to be known as the South Arcadia District. The testimony shows that economies will be effected, as a result of such a consolidation, through the elimination of duplicate offices and operating personnel.

Upon reviewing the record we are of the opinion that the proposed transfer will not be adverse to the public interest. We do not believe, however, that the record warrants an order authorizing Southern California Water Company to replace recorded figures in the fixed capital and depreciation reserve accounts with the historical cost estimates presented in this proceeding. The record clearly indicates that in general the book figures represent costs. As to the proposed addition of overheads, we do not believe it reasonable to permit adjustments to be made to increase the fixed capital accounts by amounts previously charged to operating expenses at the election of those formerly in control of the affairs of Martin and Goold Water Corporation. Accordingly, it is our opinion that if Southern California Water Company acquires the properties it should enter in its books the fixed capital and the depreciation reserve accounts of Martin and Goold Water Corporation. The difference between the cost⁽¹⁾ to Southern California Water Company, on the one hand, and the net book figures of the assets to be acquired, less the liabilities to be assumed, should be charged to the company's surplus account or to a deferred debit account for amortization by charges to income or surplus over a period of not exceeding ten years.

(1) Exhibit 4 indicates that Southern California Water Company has a net investment of \$262,067.43 in the Martin and Goold Water Corporation.

O R D E R

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

IT IS HEREBY ORDERED as follows:

1. Martin and Goold Water Corporation, after the effective date hereof and on or before August 31, 1952, may convey and transfer all its properties to Southern California Water Corporation and thereupon discontinue rendering service.

2. Southern California Water Company may acquire said properties, assume the liabilities of Martin and Goold Water Corporation, and consolidate the properties and operations with those in its Walnut Grove service area.

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, Martin and Goold Water Corporation 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 Southern California Water Company.

5. The rates, rules and regulations of Martin and Goold Water Corporation now on file with the Commission shall be refiled within thirty (30) days after the date of transfer under the name of Southern California Water Company, in accordance with the procedure prescribed by General Order No. 96, or, in lieu of such refiling, Southern California 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. If Southern California Water Company acquires said properties it shall record on its books the fixed capital accounts and depreciation reserve of Martin and Goold Water Corporation. The excess of the purchase price paid by it over the net book value of the assets acquired, less the liabilities to be assumed, shall be charged to its surplus account or to a deferred debit account for amortization by charges to income or surplus over a period of not exceeding ten (10) years beginning in 1952.

7. Southern California Water Company shall file a copy of each journal entry used to record on its books the acquisition of the properties of Martin and Goold Water Corporation, such filing to be made within thirty (30) days after the date of such entries.

8. The authority herein granted will become effective twenty (20) days after the date hereof.

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

R. J. [unclear]
James J. [unclear]
Harold P. Hule
Kenneth [unclear]
John E. [unclear]

Commissioners.