

ORIGINAL

Decision No. 47319

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of PARK WATER COMPANY, a)
corporation, LOS NIETOS WATER)
COMPANY, a corporation, and) Application No. 33285
BELLFLOWER LAND AND WATER COMPANY,)
a corporation, for authority to)
merge.)

Gibson, Dunn & Crutcher, attorneys, by
Max Eddy Utt, for applicants; W. E. Rasor,
Mrs. DeLuca, Mrs. Allen Lee and Mrs. Wilbur
Rowe, in propria personae, interested parties;
James F. Wilson and Theo Stein for the
Commission staff.

O P I N I O N

^{1/}Park Water Company, a corporation, Los Nietos Water
Company, ^{2/}a corporation, and Bellflower Land and Water Company, ^{3/}
a corporation, by the above-entitled application filed April 3,
1952, seek authority to merge under and pursuant to the Agreement
of Merger attached to the application as Exhibit "A", to be made
effective as of March 31, 1952. Park requests authority to
distribute \$194,161.61 from funds in its corporate treasury
received from the issuance and sale of stock authorized by Decision
No. 45673, dated May 8, 1951, in Application No. 32254, in payment
for the properties to be acquired as a result of the merger.

A public hearing in this matter was held before Examiner
Warner on May 16, 1952, in Los Angeles.

- ^{1/} Hereinafter referred to as Park. .
^{2/} Hereinafter referred to as Los Nietos.
^{3/} Hereinafter referred to as Bellflower.

Applicants are all public utility water corporations, operating under the jurisdiction of this Commission. As of December 31, 1951, Park furnished water service to 22,974 flat rate and 1,322 general metered service rate consumers; Los Nietos furnished water service to 1,384 flat rate and 25 general metered service rate consumers; and Bellflower furnished water service to 855 flat rate and no general metered service rate consumers. The location of applicants' water service properties in Los Angeles County is shown on the map attached to the application as Exhibit "G".

Park proposes to acquire all assets, rights and property, including all privileges, franchises, certificates of public convenience and necessity, real property, personal property, chattels of all kinds, and choses in action, and proposes to be subject to all debts and liabilities of Los Nietos and Bellflower. No changes in operating practices or conditions are contemplated except that Park proposes to apply its presently filed rates throughout the areas served by Los Nietos and Bellflower. It appears that the effect upon Los Nietos and Bellflower consumers of such application of Park's rates would be nominal.

As shown on Exhibit No. 1 filed at the hearing, Park proposes to distribute cash in lieu of shares to present shareholders of Los Nietos in the amount of \$95,895.99 for 760 shares of common stock, par value \$100, and surplus of \$19,895.99, totaling \$126.18 per share. In addition thereto Park proposes to pay accounts payable, as shown on Exhibit "B" of Exhibit No. 2, for cash advanced to Los Nietos amounting to \$18,769.46.

Park also proposes to distribute cash in lieu of shares to present shareholders of Bellflower in the amount of \$28,616.65 for 120 shares of stock, par value \$100 each, and \$16,616.65 surplus, totaling \$238.47 per share, also as shown on Exhibit No. 1. In addition, Park proposes to pay accounts payable, as shown on Exhibit "C" attached to Exhibit No. 2, for cash advanced to Bellflower, amounting to \$50,878.95.

Applicants' president and principal shareholder, H. H. Wheeler, testified that applicants' reasons for the requested merger were as follows: (1) that the water systems of applicants are now physically connected in most places; (2) that the proposed merger would eliminate confusion and duplication in office procedures and accounting; (3) that the largest corporation, Park, can and would be able to attract capital and maintain a better credit position than Los Nietos and Bellflower; (4) that he knew of no reason adverse to the merger.

Applicants' witness, Wheeler, stated that some records of Los Nietos and Bellflower prior to 1946 may have been inadvertently destroyed in the cleaning out of a garage and that attempts were being made to duplicate original invoices wherever possible. It appears that such duplication of original invoices might or might not be accurate.

A report on the original cost of properties on the development of the reserves for depreciation, and on the surplus accounts of applicants Los Nietos and Bellflower, was filed at the hearing as Exhibit No. 4, by a Commission staff accounting witness. This report indicated that there were no supporting vouchers substantiating that the recorded cost of water systems purchased was the original cost of such properties. It indicated, furthermore, that many vouchers covering additions to the system

had not been retained. The retention of invoices and vouchers is required by General Order No. 28.

In passing on an application to merge, the Commission is required to make a finding that in its opinion such merger would not be adverse to the public interest. In view of the fact that the record in this proceeding shows that there are no supporting vouchers substantiating the original costs of the water systems to be merged, no such finding is justified.

At present, the Commission cannot determine what amounts Park should be authorized to set up in its fixed capital, depreciation or surplus accounts to reflect the merger of Los Nietos and Bellflower therewith. Eventually, and for rate-fixing purposes particularly, an appraisal of Los Nietos' and Bellflower's properties will be required. Now is the time, prior to merger, to effect a correct determination of fixed capital, depreciation reserve, and surplus accounts of Los Nietos and Bellflower, proposed to be merged with Park.

Should applicants, by supplemental application, seek authority to merge, they should submit as a part of the application an historical appraisal of the Los Nietos and Bellflower properties, based upon an historical cost where available, and estimated historical cost where such costs are not available. Also, they should prepare depreciation studies to develop the computed depreciation reserve based on service lives and expectancy, historical cost, and future net salvage of present plant. The cost of making the appraisals and depreciation studies should be charged to the surplus accounts.

O R D E R

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. 33285 be, and it is, denied without prejudice.

Dated at San Francisco, California, this 24th day of June, 1952.

[Signature]
President.

Justice J. Cramer

Harold A. Hule

[Signature]

[Signature]
Commissioners.