

ORIGINAL

Decision No. 5153S

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
	:	
C. A. MacDONALD and MILDRED D. MacDONALD,)	
doing business under the name and style	:	Application
of Garden Acres Water Company, a public)	No. 36883
utility to transfer, and of GARDEN WATER	:	
CORPORATION, a California corporation to)	
issue certificates of stock.	:	
-----)	

O P I N I O N

This is an application for an order authorizing C. A. MacDonald and Mildred D. MacDonald to transfer the Garden Acres Water Company to Garden Water Corporation and authorizing Garden Water Corporation to issue \$40,000 par value of its common stock.

Applicants MacDonald are, and since 1946 have been, engaged in operating the system for the distribution of water in a portion of Kern County near Bakersfield known as Rexland Acres and Garden Acres. The present application shows that they now desire to transfer the properties and business, subject to outstanding liabilities, to a corporation which they have caused to be organized in exchange for 400 shares of stock of the par value of \$100 each.

From information on file with the Commission it appears that applicants MacDonald acquired the system in 1946 under authorization granted by Decision No. 39350, dated August 27 of that year, for the sum of \$6,000, that they made substantial additions to the

In their 1954 annual report applicants MacDonald show operating revenues of \$9,377 and net income of \$1,263, with 420 service connections at the end of the year.

system, and that as of December 31, 1954, they had increased the investment to \$40,084.23, exclusive of accounts receivable. Their financial statement at the close of 1954 shows their reported investment in assets and their liabilities and capital as follows:

Assets

Utility plant -		
Fixed capital	\$40,084.23	
Less-reserve for depreciation	<u>16,516.51</u>	
Net utility plant		\$23,567.72
Current and accrued assets		<u>643.61</u>
	Total	<u>\$24,211.33</u>

Liabilities and Capital

Consumers' advances for construction	\$12,316.00
Donations	600.00
Proprietary capital	<u>11,295.33</u>
	Total
	<u>\$24,211.33</u>

Investigation shows that the consumers' advances for construction are payable in semi-annual installments over a period of 10 years upon the basis of 35% of the gross revenues and that the new corporation will assume the obligation of repaying the amounts.

Upon taking over the properties the corporation should acquire all existing records relating to the construction and acquisition costs and should set up on its books the balances in the plant and depreciation reserve accounts of the present operators. While it clearly appears that the plant expenditures have been approximately \$40,000, it is equally apparent that a portion of such amount has been recovered by depreciation charges and that a portion has been provided with indebtedness which the corporation will assume.

Thus, we are asked to approve a transaction whereby Garden Water Corporation would issue \$40,000 of stock and assume indebtedness of approximately \$12,000, a total of \$52,000, in

payment for properties having a reported net book value of approximately \$24,000. There is nothing before us to show that such net book value does not reasonably represent original cost less accrued depreciation.

We cannot approve such a financial structure. The request of applicant corporation, if granted, would result in over-capitalization of the properties. In our opinion the proper and reasonable basis for an order authorizing the capitalization of utility properties is the original cost, estimated if not known, giving effect, however, to the depreciation reserve which has been accumulated. On this basis, the most that we can authorize the new corporation to issue and assume is limited by the reported net book value of the properties to be transferred. Accordingly, we will authorize the new corporation to assume the payment of approximately \$12,000 of indebtedness and to issue not exceeding \$12,000 par value of its common stock. We find that the transfer of the water system under these conditions will not be adverse to the public interest.

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

O R D E R

The Commission having considered the above entitled matter and being of the opinion that a public hearing is not necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the shares of stock herein authorized is reasonably required by applicant corporation 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. C. A. MacDonald and Mildred D. MacDonald may transfer their operative rights and real and personal property used in the operation of the Garden Acres Water Company, on or before October 31, 1955, to Garden Water Corporation.

2. Garden Water Corporation, in payment for such properties, may assume the payment of outstanding indebtedness consisting of consumers' advances for construction and may issue not exceeding \$12,000 par value of its common capital stock.

3. On or before the date of actual transfer, C. A. MacDonald and Mildred D. MacDonald 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 Garden Water Corporation.

4. If the authority herein granted is exercised, C. A. MacDonald and Mildred D. MacDonald, within 30 days thereafter, shall notify the Commission in writing of the date of the completion of the transfer herein authorized and of their compliance with the conditions hereof.

5. The rates, rules and regulations of C. A. MacDonald and Mildred D. MacDonald now on file with the Commission shall be refiled within 30 days after the date of transfer under the name of Garden Water Corporation, in accordance with the procedure prescribed by General Order No. 96, or, in lieu of such refileing, Garden Water Corporation 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. Upon due compliance with all the conditions of this order, C. A. MacDonald and Mildred D. MacDonald shall stand relieved of all further utility obligations and liabilities in connection with the operation of the public utility water system herein authorized to be transferred.

7. Garden Water Corporation shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

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

Dated at San Francisco, California, this 7th day of June, 1955.

John E. Mitchell
President

Justin J. Adams
Paul J. Adams

Mildred D. Adams

Commissioners