

**ORIGINAL**

Decision No. 53810

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  
of GARDEN ACRES WATER COMPANY, a public  
utility to transfer, and of GARDEN WATER  
CORPORATION, a California corporation to  
issue certificates of stock.

)  
Application No. 36883  
(Petition for Rehearing)

Baker, Palmer, Wall & Raymond,  
by Oran W. Palmer, for Applicants

OPINION ON PETITION FOR REHEARING

By an ex parte order, Decision No. 51538, dated June 7, 1955, the Commission authorized C. A. MacDonald and Mildred D. MacDonald to transfer the Garden Acres Water Company <sup>1/</sup> to Garden Water Corporation and authorized Garden Water Corporation, upon the basis of book figures as reported as of December 31, 1954, to issue \$12,000 par value of stock and to assume outstanding indebtedness, consisting of consumers' advances for construction, in the amount of approximately \$12,316, in payment for the water system.

Thereafter, upon petition having been duly filed by applicants, the Commission entered an order granting a rehearing in the proceeding. Pursuant to such order, a public hearing was held before Examiner Coleman in Bakersfield on August 27, 1956,

1/ Garden Acres Water Company is a public utility serving a portion of Kern County near Bakersfield.

evidence was received and the matter was taken under submission.

It appears to be applicants' position that the book figures do not reflect the investment in the property. The record shows that applicants MacDonald acquired the water system in August of 1946, that service was given at the outset to approximately 130 customers, with one well constituting the source of supply, and that thereafter two additional wells were placed in operation, the lines were extended and the number of services was increased to approximately 410.

The testimony taken at the hearing shows that C. A. MacDonald for a number of months devoted his full time and his labor to the construction of additional facilities and to the improvement of the system, and part time after the properties had been rehabilitated, that he did not include in the property accounts any amount as compensation for his services, that applicants have calculated the amount of such uncapitalized services for the period 1946 to 1956 at \$14,000, and that the plant accounts include no allowances for overhead charges. The testimony further shows that applicants MacDonald have placed income tax depreciation on their books and that the applicants assert such practice has resulted in an overstatement of the reserve.

The information now before us shows that applicants MacDonald have made further net additions to the system during 1955 in the amount of \$4,062, as shown in their annual report for that year and during 1956 in the amount of \$2,650 for a pump, motor and wiring and water mains, and that they have reduced the

outstanding liabilities by the sum of \$2,513 to a balance of \$9,803.<sup>2/</sup>

Upon a review of the evidence, it is clear the recorded book figures do not represent original costs nor the reserve, the depreciation accrued in the properties. The additional information now of record concerning the book figures and the transactions which have taken place since December 31, 1954, indicates that an order is warranted authorizing applicant corporation to issue \$37,500 of stock and to assume the payment of the advances for construction. We are of the opinion, and so find, that the money, property or labor to be procured or paid for by the issue of such an amount of stock is reasonably required by the corporation for the purpose specified herein, that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income, and that the transfer of the water system, as proposed, will not be adverse to the public interest.

The action taken in this decision shall not be construed to be a finding of the value of the properties herein authorized to be transferred. The authorization granted is for the purpose of this proceeding only and is not to be taken as indicative of amounts to be included in a rate base for the determination of just and reasonable rates.

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<sup>2/</sup> In addition, applicants report the expenditure of \$600 for engineering services for an inventory and appraisal. The engineering report, which is filed as Exhibit No. 1, shows estimated replacement costs in the total amount of \$66,360 and an appraisal value, after deducting depreciation calculated on the straight-line method of total life expectancy, in the total amount of \$47,183. While analysis indicates that most of the plant in service has been constructed since 1946, the proper appraisal basis for the purpose of restatement of books is the original cost basis rather than replacement cost basis.

ORDER ON PETITION FOR REHEARING

A public hearing having been held in the above-entitled matter and the Commission having considered the evidence,

IT IS HEREBY ORDERED as follows:

1. Decision No. 51538, dated June 7, 1955, is vacated and set aside.

2. 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 to Garden Water Corporation, on or before December 31, 1956.

3. Garden Water Corporation, in payment for such properties, shall assume the payment of outstanding indebtedness consisting of consumers' advances for construction and may issue not exceeding \$37,500 par value of its common capital stock.

4. 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.

5. 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.

6. The rates, rules and regulations of C. A. MacDonald and Mildred D. MacDonald now on file with the Commission shall be re-filed 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 refiling, 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.

7. 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.

8. Garden Water Corporation shall charge the net cost of acquiring the properties under the authorization herein granted to Account 391, Utility Plant Purchased. Within six months after acquisition of said properties and before distributing such net cost to primary plant and other accounts, it shall file with the Commission for review its proposed journal entries to accomplish such distribution.

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

Dated at San Francisco, California, this 25th day of September, 1956.

John E. Mitchell President

Justin J. Casanova

Paul V. Terrence

William H. ...

R. Hardy Commissioners