

Decision No. 61483**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of the COUNTY WATER COMPANY, a California corporation, for authority and permission to merge BERLU WATER COMPANY, a California corporation of Bellflower, California, and SUBURBAN MUTUAL WATER COMPANY, a Trust, of Norwalk and Artesia, California, with COUNTY WATER COMPANY, into one company to be known as COUNTY WATER COMPANY. Authority and permission is also requested for COUNTY WATER COMPANY to issue additional stock in exchange for existing stock in BERLU WATER COMPANY and SUBURBAN MUTUAL WATER COMPANY. Authority and permission is also requested to retain and use the rates and charges for services rendered of COUNTY WATER COMPANY, when and if said mergers and stock transfers are approved by the PUBLIC UTILITIES COMMISSION.

Application
No. 42210

John A. Erickson, for applicants.
Sam E. McGuffin, for Southern California Water Company, interested party.
Richard R. Entwistle and C. O. Newman, for the Commission's staff.

O P I N I O N

By the application herein, filed with this Commission on May 2, 1960, and amended by an amendment filed after hearing on December 21, 1960, the Commission is asked to enter its order authorizing County Water Company, a California corporation, to acquire the assets and authority of Berlu Water Company, a California corporation, and Suburban Mutual Water Company, a Trust, and to issue its stock in exchange for the assets of said companies.

A public hearing on the application was held before Examiner Kent C. Rogers in Artesia on November 14, 1960, and the matter was submitted subject to the filing of an amendment to the application. This amendment was filed on December 21, 1960, and the matter is ready for decision. As originally presented to the Commission, the application included requests for rate increases. At the request of the applicants these requests were deleted.

County Water Company is a California corporation. Its president is John A. Erickson, its vice president is Harry L. Erickson, and its secretary-treasurer is Marilyn Erickson. These three parties are also its directors. Its Articles of Incorporation permit it to issue not to exceed 250,000 shares of one dollar per share par value common stock. It has heretofore issued or been authorized to issue 34,400 shares of such stock. The majority of such shares is presently owned by John A. Erickson.

Berlu Water Company, a corporation, has the same officers and directors as County Water Company. All of the issued stock, three shares of one dollar par value each, is owned by John A. Erickson.

By the application authority is sought to transfer the assets of Berlu Water Company to County Water Company in exchange for stock in the latter company. The Berlu Company will become a part of the County Water Company, but, pending further order of this Commission, the Berlu rates will remain in effect in the Berlu service area.

John A. Erickson claims to be the sole owner of the assets of Suburban Mutual Water Company, a Trust, (hereinafter called "mutual"), and proposes to transfer the company to County Water Company in exchange for stock in the latter company.

The mutual was declared to be a public utility water company after investigation by this Commission (Decision No. 16329, dated March 30, 1926, in Case No. 2074; 27 C.R.C. 823), and ordered to file its schedule of rates and charges. This was done. Originally there were six separate water systems owned by R. W. Sparling and leased by him for a term of years to the mutual, a business trust consisting of himself and four other trustees. This mutual, according to the decision referred to, was authorized by the corporation commissioner to issue 2,000 shares of ten dollar par value per share stock. The official records of the Commission do not show whether or not any of such shares were ever issued.

Most of the mutual's systems were transferred pursuant to authority from this Commission (Decision No. 21185, dated June 4, 1929, in Application No. 15596; Decision No. 48080, dated December 22, 1952, in Application No. 33887; Decision No. 49318, dated November 10, 1953, in Application No. 34687). In each instance R. W. Sparling was listed as the owner of the physical properties, and Suburban Mutual Water Company, a Trust, was listed as the lessee-operator thereof. It is clear that while Mr. Sparling was alive the mutual owned no part of the water systems. The records of this Commission show that in some manner in the year 1957 John A. Erickson acquired the mutual company. Presumably this was by the acquisition by him of all of the mutual's stock, as he testified that he is the sole owner of said company. In 1959, for the first time, the mutual's annual report shows it owning a utility plant valued at approximately \$50,000.

On December 21, 1960, after the hearing herein, an amendment to the application was filed which shows that the utility plant in place when John A. Erickson assumed ownership and management of the mutual was transferred to him personally.

John A. Erickson claims to have title to the mutual's well sites and will transfer them to County Water Company. The executor of the Estate of R. W. Sparling, Deceased, has advised the Commission in writing (Exhibit B on the amendment to the application) that he had assigned all of the assets of Suburban Mutual Water Company, a Trust, to Utility Management Company. This company, in turn, transferred said assets to John A. Erickson. It thus appears that John A. Erickson (without authority from this Commission) became the owner in his own name of the system and the certificate of Suburban Mutual Water Company, a Trust. Subsequently, John A. Erickson continued to use the name of the mutual and placed certain system improvements in the name thereof. Inasmuch as such company continues in legal existence, it will be necessary to recognize it in connection with the stock issues subsequently herein authorized.

By the application herein, authority is sought to transfer the assets used by Suburban Mutual Water Company, a Trust (including the property owned by John A. Erickson) to County Water Company in exchange for stock in the water company. The mutual rates will remain in effect in its service areas.

The reason for the transfers is that all three companies have the same management personnel, and offices, and all employees are paid through the same account. The consolidation will result in savings to the company.

Berlu Water Company has 452 consumers. The original cost of the utility plant was \$91,573.89, and the book value, after deducting depreciation reserve, was calculated by the staff to be \$67,364.81 as of August 31, 1960. County Water Company desires authority to issue stock to Berlu Water Company in exchange for the system and assets thereof, calculated by the staff to be of the net value of \$55,140.84, and to assume all of the obligations of said company including \$2,851.40 of unrefunded advances in aid of construction.

Suburban Mutual Water Company has a total of 515 subscribers, of which 468 are metered. The original cost of the utility plant was \$85,628.44, of which \$6,645.10 was of plant installed by the company after John A. Erickson acquired it, and \$78,983.34 is the original cost of the plant purchased by John A. Erickson. The respective book values of these portions of the utility plant, after deducting depreciation reserve, were \$6,187.64 and \$42,522.55, as of August 31, 1960, or a total of \$48,710.19. County Water Company desires authority to issue stock to John A. Erickson and to Suburban Mutual Water Company, a Trust, in exchange for the system and assets referred to. The staff calculated that these assets had a total net value of \$47,708.33 on said date, of which \$4,886.08 would represent the value of the improvements installed by Erickson since he acquired the company, and \$42,522.25 would represent the net value of the assets personally owned by John A. Erickson. All of the obligations of the operation would be assumed by County Water Company.

The tariff schedules of Berlu Water Company, Suburban Mutual Water Company and County Water Company presently on file with the Commission disclose that the rules of the latter company are more

recent and up-to-date than those of the other two utilities. We therefore find and conclude that the consolidated utility should operate under the presently effective rules of County Water Company and the order herein will so provide. It appears, and the Commission so finds, that such rules, when made applicable to the areas now served by Berlu Water Company and Suburban Mutual Water Company, will not be adverse to the public interest. We find that any resulting increases in charges or more restrictive practices are justified.

From the record herein it appears and we find and conclude that the proposed transfers will not result in any increase in operating expenses, and we find and conclude, therefore, that the proposed transactions as authorized herein will not be adverse to the public interest, and that the money, property or labor to be procured or paid for by the issue of the securities herein authorized is reasonably required for the purposes specified herein, and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income.

The authorization herein granted is for the transfer of properties and for the issuance of securities, and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

O R D E R

An application having been filed, a public hearing having been held thereon, the Commission having made the foregoing findings, and based on said findings,

IT IS HEREBY ORDERED as follows:

(1) That Berlu Water Company, a corporation, on or after the effective date hereof, and on or before September 30, 1961, may transfer to County Water Company, a corporation, the certificate of public convenience and necessity granted by Decision No. 20305 dated October 3, 1928, in Application No. 14908 (32 C.R.C. 265), and the public utility system and assets referred to in this application and amendment.

(2) That John A. Erickson, an individual, on or after the effective date hereof, and on or before September 30, 1961, may transfer to County Water Company, a corporation, the operating rights found to have been exercised by Suburban Mutual Water Company, a Trust, by Decision No. 16329, dated March 30, 1926, in Case No. 2074 (27 C.R.C. 823), as subsequently modified by decisions of this Commission, and the public utility system and assets as described in this application and amendment.

(3) That Suburban Mutual Water Company, a Trust, on or after the effective date hereof, and on or before September 30, 1961, may transfer to County Water Company, a corporation, the public utility facilities and assets acquired and installed by said mutual company since the assumption of ownership and management thereof by John A. Erickson.

(4) That the transfers authorized in ordering paragraphs (1), (2) and (3) are subject to the following conditions:

a. That County Water Company, if it acquires the properties of Berlu Water Company and Suburban Water Company, a Trust,

1. Is authorized and directed to apply the presently effective rates of Berlu Water Company and Suburban Mutual Water Company in the respective present service area of each said company and to apply therein its presently effective rules.

2. Shall, within thirty days after the date of actual transfer, file the presently effective rates of Berlu Water Company and Suburban Mutual Water Company under its own name, so as to make them applicable to the respective portions of the consolidated service area as hereinabove authorized, and revise its other tariff sheets and file tariff service area maps so as to provide for the application of its tariff schedules to the consolidated service area, all in accordance with the procedure prescribed by General Order No. 96 and in a manner acceptable to the Commission. Such tariff sheets shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

- b. That on or before the date of actual transfer, Berlu Water Company, John A. Erickson and Suburban Mutual Water Company, a Trust, shall refund all customers' deposits and advances for construction, if any, relating to the properties to be transferred which are subject to refund as of the date of transfer. Any unrefunded deposits and advances shall be transferred to, and become the obligation for refund of, County Water Company.
- c. That on or before the date of actual transfer, Berlu Water Company, John A. Erickson and Suburban Mutual Water Company, a Trust, shall transfer and deliver to County Water Company, and the latter shall receive and preserve, all records, memoranda and papers pertaining to the construction and operation of the properties of Berlu Water Company, John A. Erickson and Suburban Mutual Water Company, respectively.
- d. That if the authorities herein granted are exercised, Berlu Water Company, John A. Erickson, and Suburban Mutual Water Company, a Trust, within thirty days thereafter, shall notify this Commission in writing of the date of the completion of stock and property transfers herein authorized, and of their respective compliance with the conditions herein applicable.
- e. That upon due compliance with all the conditions of the respective transfers, Berlu Water Company, John A. Erickson and Suburban Mutual Water Company, a Trust, shall stand relieved of all further public utility obligations and liabilities in connection with the operation of the public utility water systems and properties herein authorized to be transferred.

(5) That County Water Company, a corporation, on or after the effective date hereof, and on or before September 30, 1961, may issue not to exceed the following number of shares of its common

capital stock to the following corporations or individuals:

- a. To Berlu Water Company, a corporation,
55,140 shares.
- b. To John A. Erickson and Marilyn Erickson,
husband and wife, as tenants in common,
42,522 shares.
- c. To Suburban Mutual Water Company, a Trust,
4,826 shares.

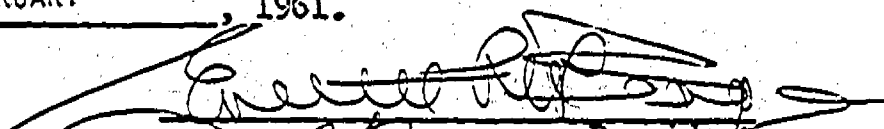
(6) That Berlu Water Company, a corporation, John A. Erickson and Marilyn Erickson, husband and wife, and Suburban Mutual Water Company, a Trust, may acquire and hold the shares of stock which County Water Company is herein authorized to issue.

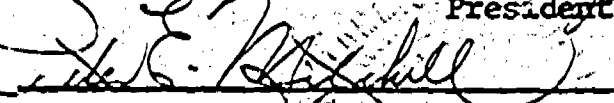
(7) That County Water Company, a corporation, shall file with this Commission reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

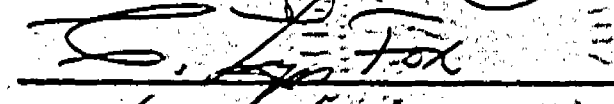
(8) That except as herein expressly granted, the application is denied.

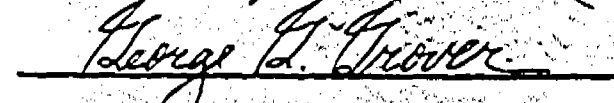
The effective date of this order shall be twenty days after the date hereof.

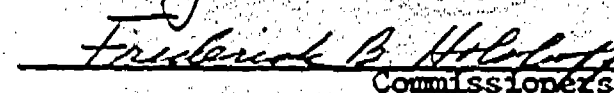
Dated at San Francisco, California, this
14th day of FEBRUARY, 1961.



President








Commissioners