

Decision No. 62508

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SUNSET LAND AND WATER COMPANY For Authority To Transfer Utility Properties And Operative Rights To SUNSET BEACH-SURFSIDE WATER COMPANY And Application Of SUNSET BEACH-SURFSIDE WATER COMPANY For Authority To Issue Stock In Exchange Therefor.

Application No. 43632

O P I N I O N

This application was filed on July 26, 1961, for an order of the Commission (1) authorizing Sunset Land and Water Company to transfer prescriptive rights, a certificate of public convenience and necessity, and a public utility water system to Sunset Beach-Surfside Water Company, a corporation; (2) authorizing Sunset Beach-Surfside Water Company, a corporation, to issue 147,435 shares of its capital stock of an aggregate par value of \$73,717.50; and (3) issuing to Sunset Beach-Surfside Water Company an "in lieu" certificate of public convenience and necessity to serve the dedicated areas delineated in Exhibit A and Exhibit B attached to the application.

The application shows that Sunset Land and Water Company was incorporated in 1904 and, since that date, has been engaged in the business of distributing water for

domestic use to consumers in Sunset Beach pursuant to prescriptive rights and without a certificate of public convenience and necessity. On October 4, 1929, the company was granted a certificate of public convenience and necessity to extend its water system for the purpose of furnishing water service to an unincorporated area known as Surf Side Colony which is contiguous to and north of Sunset Beach. Sunset Land and Water Company did extend its water system and currently furnishes water for domestic purposes to approximately 570 consumers in Sunset Beach and in Surf Side Colony.

According to the December 31, 1960 balance sheet, attached to the application as Exhibit G, Sunset Land and Water Company has assets and liabilities as follows:

Assets

Utility plant	\$128,965	
Less: Accumulated depreciation	<u>40,694</u>	\$88,271
Investments in real estate		3,263
Cash		280
Other current assets		<u>2,200</u>
Total		<u>\$94,014</u>

Liabilities

Stockholders' equity -		
Common stock	\$ 1,474	
Surplus	<u>75,189</u>	\$76,663
Advances for construction		1,232
Accounts payable		1,666
Notes payable		11,000
Other current liabilities		<u>3,453</u>
Total		<u>\$94,014</u>

The investment in real estate, shown in the December 31, 1960 balance sheet of Sunset Land and Water Company at \$3,263, represents the 1904 cost of acquiring proprietary rights in real property at Sunset Beach which it is alleged has never been used and is neither necessary nor useful in connection with the public utility operations. This real estate is said to have greatly enhanced in value in recent years and Sunset Land and Water Company is desirous of disposing of such property. Since the sale of the non-operating properties may create income tax problems which could be detrimental to efficient operation of its public utility water business, the company advises that it also desires to segregate its public utility operations from its nonutility operations by transferring the public utility property to a wholly owned subsidiary which will continue to perform the public duties now being performed by it. To accomplish this objective, Sunset Land and Water Company has caused the organization of Sunset Beach-Surfside Water Company, a California corporation, to which it proposes to transfer the utility properties, free and clear of all liabilities, except those pertaining to consumers' advances in aid of construction, in exchange for 147,435 shares of the new corporation's capital stock of the par value of 50 cents per share.

According to the application, the new corporation will take over the utility properties and the applicable depreciation reserve balances at their book balances; will

assume the liability of the seller for any outstanding consumers' advances, or deposits, a total of \$1,232 on December 31, 1960; will issue 147,435 shares of its capital stock of the aggregate par value of \$73,717.50 in payment for the properties being acquired; and will credit the difference between the net book value of the assets being acquired and the par value of the stock being issued in payment thereof, a difference of \$13,321.00 as of December 31, 1960, to capital surplus.

Upon reviewing the application we are of the opinion, and so find and conclude, that the transfer of the water system will not be adverse to the public interest; that public convenience and necessity require the granting of the certificate contained in the order herein; that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required 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 an order should be entered granting the requests of applicants.

The certificate hereinafter granted shall be subject to the following provision of law:

That the Commission shall have no power to authorize the capitalization of this certificate of public convenience and necessity or the right to own, operate, or enjoy such certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right.

The authorization herein granted is for the purpose of this proceeding only and is not intended to be a finding of any value of the properties herein authorized to be transferred nor indicative of amounts to be included in a future rate base for the determination of just and reasonable rates.

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, therefore,

IT IS HEREBY ORDERED that -

1. Sunset Land and Water Company, on or after the effective date hereof and on or before June 30, 1962, may transfer the public utility water system referred to in this proceeding to Sunset Beach-Surfside Water Company, a corporation.

2. In lieu of authorizing the transfer of prescriptive rights heretofore obtained by Sunset Land and Water Company by reason of its having operated a water system furnishing water for domestic purposes to consumers in Sunset Beach subdivision prior to the enactment of the Public Utilities Act in 1911, and of the certificate of public convenience and necessity granted by this Commission by Decision No. 21649, dated October 4, 1929, in Application No. 15745, which

authorized the company to extend its water system into the contiguous unincorporated subdivision known as Surf Side Colony, a certificate of public convenience and necessary is granted to Sunset Beach-Surfside Water Company to construct and operate a public utility water system for the production, distribution and sale of water within the subdivisions known as Sunset Beach and Surf Side Colony, approximately one mile southeast of the City of Seal Beach, Orange County, as said subdivisions are delineated on the maps attached to the application herein as Exhibit A and Exhibit B.

3. Sunset Beach-Surfside Water Company, on or after the effective date hereof and on or before June 30, 1962, may issue not to exceed \$73,717.50 par value of its capital stock in the manner and for the purpose set forth in this application.

4. On or before the date of actual transfer, Sunset Land and Water Company shall -

- (a) Refund all deposits, if any, which customers are entitled to have refunded. Any unrefunded deposits shall be transferred to and shall become the obligation for refund of Sunset Beach-Surfside Water Company.
- (b) Transfer all advances for construction held by it to Sunset Beach-Surfside Water Company, and the latter shall assume the obligation for repayment of such advances, as provided by Section 15 of the application, and they shall, within 15 days after the date of transfer, jointly file with this Commission a certified copy of an appropriate instrument showing the names and addresses of all persons or corporations in whose favor such obligations exist and the amounts thereof.

5. The rates and rules of Sunset Land and Water Company now on file with this Commission shall be refiled within 30 days after the date of actual transfer under the name of Sunset Beach-Surfside Water Company, in accordance with the procedure prescribed by General Order No. 96, or in lieu of such refiling, Sunset Beach-Surfside Water Company may file a notice of adoption of said presently filed rates and rules. No increases in the presently filed rates and rules shall be made unless otherwise properly authorized by this Commission.

6. On or before the date of actual transfer, Sunset Land and Water Company shall transfer and deliver to purchaser, who shall receive and preserve all records, memoranda and papers pertaining to the construction and operation of the properties herein authorized to be transferred.

7. If the authority herein granted is exercised, Sunset Land and Water Company shall, within 30 days thereafter, notify this Commission, in writing, of the date of such completion of the property transfer herein authorized and of its compliance with the conditions hereof.

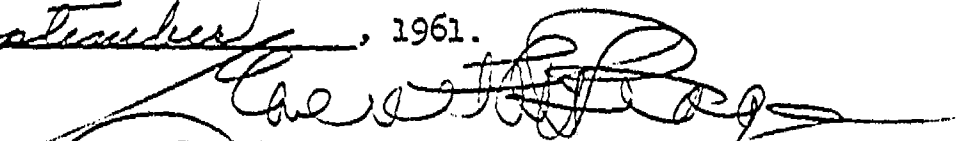
8. Upon compliance with all of the conditions of this order, Sunset Land and Water Company shall stand relieved of all further public utility obligations in connection with the operation of the public utility water system herein authorized to be transferred.


9. Purchaser shall determine the accruals for depreciation by dividing the original cost of the utility plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the plant. Purchaser shall review the accruals as of January 1st of the year following the date of purchase and thereafter when major changes in utility plant composition occur and at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.


10. Sunset Beach-Surfside Water Company 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.


11. The authority herein granted shall become effective 20 days after the date hereof.


Dated at San Francisco, California, this 5th day of September, 1961.



President








Commissioners