

Decision No. 62830

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
JOHN SCIARRA, doing business as )  
SCIARRA WATER COMPANY for: (1) )  
transfer of assets of SCIARRA WATER )  
COMPANY to FITCH MOUNTAIN WATER )  
COMPANY, INC.; (2) for permission )  
to issue stock. )

Application No. 43428  
(Filed May 22, 1961)

Molinari, Casalnuovo & Berger, by Charles P. Molinari,  
for applicant.  
John A. O'Kane, for himself and for Del Rio Wood Home  
Owners' Association, protestant and interested party.  
Bernard A. Devine, for himself, interested party.  
L. L. Thormod and James R. Barrett, for the Commission  
staff.

O P I N I O N

By the above-entitled application John Sciarra, as the owner of a public utility water system operating under the fictitious name of Sciarra Water Company, and also as the president of the Fitch Mountain Water Company, Inc., <sup>1/</sup> a corporation, seeks an order of this Commission authorizing (1) the transfer of Sciarra's public utility water assets to Fitch Mountain and (2) the issuance and delivery of \$53,000 par value stock of Fitch Mountain in exchange therefor.

A public hearing was held before Examiner E. Ronald Foster in San Francisco on August 1, 1961, at which time evidence both oral and documentary was adduced and the matter was submitted for decision.

Fitch Mountain Water Company, Inc., was organized under the laws of California, on or about August 12, 1960, primarily and initially to engage in the specific business of supplying water service to the general public, with its principal office to be located in the City of Healdsburg, Sonoma County. The corporation

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<sup>1/</sup> Sometimes herein called "Fitch Mountain".

has an authorized capital stock of 50,000 shares, of the par value of \$10 each, all common, with an aggregate par value of \$500,000. According to the application, the corporation has conducted no business and has no assets. The record shows that John Sciarra is president, Ida Sciarra, his wife, is vice president, and Charles P. Molinari is secretary and treasurer; the same three persons are also the present directors. John Sciarra testified that all of the stock to be issued in exchange for the transfer of the water utility assets will be issued to himself.

Sciarra's water system is located in the resort areas known as Del Rio Woods and Camp Rose, lying along the Russian River, approximately two miles easterly of the City of Healdsburg in Sonoma County. The system renders water service to approximately 300 customers in an area of about 400 acres.

The basis of Sciarra's request for the issuance of stock in the corporation in exchange for the water system properties is a balance sheet as of December 31, 1960, attached to the application as page 2 of Exhibit A, which shows his public utility water assets as follows:

Utility plant	\$46,653.40
Reserve for depreciation	14,961.12
Utility plant less reserve	<u>31,692.28</u>
Other water systems acquired	22,201.84
Subtotal	<u>53,894.12</u>
Materials and supplies	702.25
Total assets	<u>\$54,596.37</u>

At the hearing, a staff member of the Commission's Finance and Accounts Division presented a file memorandum dated July 31, 1961, received in evidence as Exhibit No. 1, which shows the results of his examination and analysis of Sciarra's water utility plant accounts as follows:

Utility Plant and Depreciation Reserve Balances  
at December 31, 1960

<u>Items</u>	<u>Exhibit A</u> <u>A. 43428</u>	<u>P.U.C.</u> <u>Staff</u>	<u>Difference</u>
<u>Utility Plant</u>			
Sciarra System	\$46,653.40	\$43,200.24	\$ 3,453.16
Fitch Mountain Pipeline	14,590.00	6,267.04	8,322.96
McDonough Heights Water	10,524.10	10,524.10	-0-
Blasi-Kennedy Line	4,403.10	-0- <sup>a</sup>	4,403.10
Total Utility Plant	<u>76,170.60</u>	<u>59,991.38<sup>b</sup></u>	<u>16,179.22</u>
<u>Depreciation Reserve</u>			
Sciarra System	14,961.12	13,885.30	1,075.82
Fitch Mountain Pipeline	4,085.20	2,666.62	1,418.58
McDonough Heights Water	2,525.76	2,725.73 <sup>a</sup>	(199.97)
Blasi-Kennedy Line	704.40	-0-	704.40
Total Depreciation Reserve	<u>22,276.48</u>	<u>19,277.65</u>	<u>2,998.83</u>
Net Utility Plant	<u>\$53,894.12</u>	<u>\$40,713.73</u>	<u>\$13,180.39</u>

<sup>a</sup> Blasi-Kennedy Line cost is included in Sciarra System total per staff appraisal, Application No. 37103.

<sup>b</sup> Utility plant financed by contributions in the amount of \$2,438 is included in staff figures.

The staff witness testified that the basis of the foregoing plant figures, details of which are shown in Exhibit No. 1, is as follows:

1. For the Sciarra System, the plant figures are those determined in the last rate proceeding (Decision No. 52903, dated April 17, 1956, in Application No. 37103) plus additions to plant from 1956 to 1960 as determined from a review of the utility's accounting records.
2. The original cost of the Fitch Mountain Pipeline was determined by means of an examination of the former owner's books.
3. The McDonough Heights Water system was installed about 1953 at an estimated cost of \$10,524.
4. The cost of the Blasi-Kennedy Line was included in the Sciarra System plant in the 1955-56 rate proceeding, as verified by examination of the map filed with the Commission in Application No. 37103.

In Decision No. 52903, the applicant, John Sciarra, was instructed to use a rate of 3.7 per cent in determining depreciation expense. However, in subsequent years he used higher rates, thus

resulting in the recording of a larger depreciation reserve balance at December 31, 1960 than a 3.7 per cent rate would have produced. The staff's depreciation reserve balances in the foregoing tabulation represent a recalculation using the 3.7 per cent rate for all depreciation accruals.

At the hearing, Sciarra testified to his willingness to accept the net utility plant figures as developed by the staff. He also made a verbal request to amend his application for permission to issue \$39,000 worth of stock instead of the former larger amount of \$53,000.

At the hearing an interested party urged that the properties designated as the Fitch Mountain Pipeline and the McDonough Heights Water (system) should be considered as donated or contributed plant, since the record shows that Sciarra acquired them for a cash consideration of \$1.00 for each system. The record further shows that both of these systems had previously been operated as independent systems rendering water service to the general public and that as of December 31, 1960, the estimated original cost of the two said systems totalled \$16,791.14, with a net amount of \$11,393.79 after deducting applicable reserves for depreciation.

It has been the policy of this Commission, for accounting and rate making purposes, to recognize the original cost of operating systems acquired by purchase and to disregard the purchase price paid when those systems had previously been dedicated to public use. Under such policy the customer's rates will reflect those costs associated with the actual cost of constructing the facilities devoted to their use and will not be subject to variations which might otherwise result in the event the purchase price, whether less than or in excess of the actual installed cost, were to be recognized for rate making purposes.

It has also been suggested that the Commission, as a part of its order in this proceeding, require that such shares of stock as it may authorize to be issued be placed in escrow, so as to restrict subsequent transfers of such shares except as may be authorized by the Commission. The Commission authorizes the issue of shares of stock for specific purposes, in this case the acquisition of water system operating properties, and thereafter looks to the corporation subject to its jurisdiction to provide the necessary facilities required to render adequate service. It does not appear, from the record in this proceeding, that the Commission would be justified in restricting subsequent transfers of the outstanding shares of the corporation's stock by placing such shares in escrow and the record does not contain evidence which would indicate that failure to require an escrow provision will create a condition which will be adverse to the public interest.

Based on a careful consideration of the evidence herein, we find and conclude that the staff's determination of Sciarra's net utility assets as set forth in Exhibit No. 1 are reasonable and that they will support a stock issue by Fitch Mountain not in excess of \$39,000, as indicated in the following tabulation:

Net utility plant, December 31, 1960	\$40,714
Plus Materials and supplies	702
Subtotal	<u>41,416</u>
Less contributed plant	<u>2,438</u>
Net Total Utility Assets	<u>38,978</u>

Upon reviewing all of the record, we find and conclude that the proposed transfer, under the terms set forth in the order herein, will not be adverse to the public interest; that the money, property or labor to be procured or paid for by the issue of the stock is reasonably required for the purpose specified herein and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income. We will authorize the transfer

and the issuance of \$39,000 of Fitch Mountain stock in exchange therefor.

All motions inconsistent with the action taken herein are hereby denied.

O R D E R

Application as above entitled having been filed, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS ORDERED that:

1. On or after the effective date hereof and on or before June 30, 1962, John Sciarra may transfer the public utility water system referred to in this proceeding, heretofore operated under the name of Sciarra Water Company, to Fitch Mountain Water Company, Inc., a corporation.

2. On or after the effective date hereof and on or before June 30, 1962, Fitch Mountain Water Company, Inc., a corporation, may issue not to exceed \$39,000.00 par value of its common stock for the purposes set forth in this application.

3. On or before the date of actual transfer, John Sciarra shall refund all customers' deposits and advances for construction which are subject to refund as of the date of transfer, if any. Any such deposits and advances which remain unrefunded shall be transferred to and shall become the obligation for refund of Fitch Mountain Water Company, Inc., a corporation.

4. On or before the date of actual transfer, John Sciarra shall transfer and deliver to Fitch Mountain Water Company, Inc., a corporation, and the latter shall receive and preserve all records, memoranda and papers pertaining to the construction and operation of the public utility water system herein authorized to be transferred.

5. Within thirty days after the date of actual transfer, the rates and rules of John Sciarra, now on file with this Commission under the name of Sciarra Water Company, shall be refiled under the name of Fitch Mountain Water Company, Inc., a corporation, in accordance with the procedure prescribed by General Order No. 96; or, in lieu of such filing, Fitch Mountain Water Company, Inc., a corporation, may file a notice of adoption of said presently filed rates and rules. No increases in the presently filed rates shall be made unless authorized by this Commission.

6. Within thirty days after the consummation of the transfer herein authorized, John Sciarra shall notify the Commission, in writing, of that fact and of his compliance with all the conditions hereof, and shall file with the Commission a true copy of any bill of sale or other instrument of transfer which may be executed to effect said transfer.

7. Upon due compliance with all of the conditions of this order, John Sciarra shall stand relieved of all further public utility obligations and liabilities in connection with the operation of the public utility water system herein authorized to be transferred.

8. If the authority herein granted is exercised, Fitch Mountain Water Company, Inc., a corporation, shall:

- a. Within ninety days after the consummation of the transfer herein authorized, file with this Commission four copies of a comprehensive map drawn to an indicated scale not smaller than 400 feet to the inch, delineating by appropriate markings the various tracts of land and territory served; the principal water production, storage, and distribution facilities; and the location of the various water system properties of said company.
- b. Upon its acquisition of the water system, continue to determine depreciation expense by multiplying depreciable utility plant by a rate of 3.7 per cent. This rate shall be used until review indicates it should be revised. It shall review the

depreciation rate using the straight-line remaining life method when major changes in utility plant composition occur and at intervals of not more than five years, and shall revise the above rate in conformance with such reviews. Results of these reviews shall be submitted to the Commission.

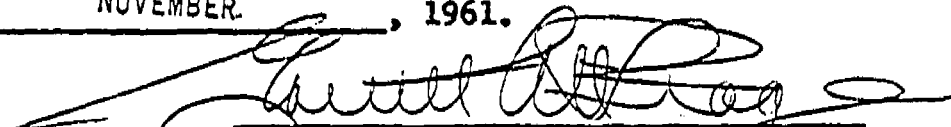

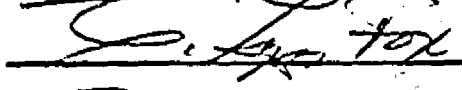

- c. File a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

9. The authorizations herein granted are for the purpose of this proceeding only and are not intended to be a finding of the value of any of the properties herein authorized to be transferred or as indicative of amounts to be included in a future rate base for the determination of just and reasonable rates.

10. Except to the extent authorized herein, the application be and it is denied.

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

Dated at San Francisco, California, this  
21<sup>st</sup> day of NOVEMBER, 1961.

  
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President  
  
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Commissioners