

ORIGINAL

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Decision No. \_\_\_\_\_

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of TEMESCAL WATER COMPANY and )  
CORONA CITY WATER COMPANY for )  
Authorization to Acquire and )  
Sell Certain Water Distribution )  
Facilities and for Approval of )  
Related Journal Entry )

Application No. 44939

(Filed November 14, 1962)

OPINION AND ORDER

Temescal Water Company (Temescal) and Corona City Water Company (Corona) are public utility water companies serving in and around the City of Corona, California. Temescal furnishes irrigation water, also water to Corona for resale. Corona furnishes water for domestic and industrial purposes.

The application seeks authority for Temescal to sell and Corona to acquire that portion of Temescal's No. 3 transmission line 30,367 feet in length extending from its Coldwater Weir to its El Cerrito Weir, both south and east of the City of Corona, and to make accounting entries in connection with said transfer.

In support of these requests, the applicants allege that the No. 3 line was originally constructed in the year 1911 and consists of 20-inch and 22-inch steel, concrete, and reinforced concrete pipeline, that at the time of its installation, the line was utilized for the transmission of both domestic and irrigation water; that in 1937, a portion of the line from the El Cerrito Weir westerly to a reservoir in the City of Corona was transferred to Corona; that the date of this transfer represents the time when

the line was wholly dedicated to service of Corona in that its primary utilization was for delivery of domestic water; that at that time this transfer was recorded on the books of both companies; that inasmuch as the entire No. 3 line is dedicated to the service of domestic water to Corona, it is proposed by this application to complete a transfer thus begun at the date of dedication in 1937 and to make a transfer of the remainder of the line from the Coldwater Weir to the El Cerrito Weir as of January 1, 1962.

The applicants further allege that in order to accomplish the transfer of the described portion of the No. 3 line, Drake Engineering Services, Inc., was employed to develop the depreciated historical cost on said line as of the date of dedication thereof; that the consideration for the transfer is the depreciated original cost to Temescal (in 1937), and the difference between the depreciated original cost to Temescal and depreciated historical cost of Corona is shown as capital surplus in the proposed Corona journal entry.

The proposed journal entries to be entered on Temescal's books are as follows:

	<u>Dr.</u>	<u>Cr.</u>
100-1/343 Trans. & Dist. Mains		\$45,198.48
250 Res. for Depreciation	\$16,742.57	
Accts. Receivable Assoc. Co's.	28,455.91	

To record sale to Corona City Water Company, as of January 1, 1962, of No. 3 Line, from Coldwater Weir to El Cerrito Weir, as detailed below:

<u>Description</u>	<u>Cost</u>	<u>Reserve</u>
5,765' - 20" Steel	\$11,565.98	\$ 4,231.72
8,628' - 20" Reinforced Concrete	6,935.92	2,567.22
15,974' - 22" Concrete	<u>26,676.58</u>	<u>7,861.62</u>
	<u>\$45,198.48</u>	<u>\$16,742.57</u>

The journal entries proposed to be entered on Corona books to record the acquisition are as follows:

	<u>Dr.</u>	<u>Cr.</u>
100-1/343 Trans. & Dist. Mains	\$125,136.17	
250 Res. for Depreciation		78,501.55
223-2 Accts. Payable Assoc. Co's.		28,455.91
270 Capital Surplus		18,178.71

To record acquisition from Temescal Water Company as of January 1, 1962, of No. 3 Line, from Coldwater Weir to El Cerrito Weir, as detailed below. Costs and reserve for depreciation applicable thereto are based upon historical costs of facilities at time of dedication by Temescal Water Company, as determined by Drake Engineering Services, Inc.

<u>Description</u>	<u>Cost</u>	<u>Reserve</u>
5,765' - 20" Steel	\$ 33,771.04	\$ 24,322.20
8,628' - 20" Reinforced Concrete	17,752.97	11,136.95
15,974' - 22" Concrete	<u>68,612.16</u>	<u>43,042.40</u>
	<u>\$125,136.17</u>	<u>\$ 78,501.55</u>

The proposed bill of sale showing a consideration of \$28,455.91 is set forth in the application as Exhibit "F".

It should be noted here that the depreciation rate in arriving at the above set forth reserve for depreciation as stated in a report by a Commission financial examiner, dated January 9,

1963, was calculated as applicable to the specific facilities in the same ratio that the book depreciation reserve at December 31, 1961, bears to the book depreciable plant at that date, namely, 37.04%. The report further stated that neither of these two components used to develop this ratio, being rooted in the "Kelly appraisal," now constituting recorded plant, are acceptable as a basis for calculating a reasonable depreciation reserve requirement, since the reserve ratio of 37.04% thus derived, when considered in the light of the present approximate 50-year-age of the properties, indicates a total life of approximately 135 years and a remaining life of 85 years.

Temescal, in arriving at its sale value of \$45,198.48, used the recorded costs in 1911 when the No. 3 line was constructed adjusted by the addition of overheads, deleted certain plant heretofore transferred and arrived at an adjusted cost of Line No. 3 of the \$45,198.48 as aforesaid.

The applicants' engineering consultant, although considering the plant as having been dedicated in 1937, used a total life of 60 years and a remaining life of 30 years. The staff's financial examiner stated that this is a realistic approach and develops a reserve requirement amounting to 62.73% of the depreciable base. Applying this percentage to Temescal's adjusted cost of Line No. 3 gives a reserve requirement of \$28,353.01 and a net depreciated cost of \$16,845.47. This latter figure in the staff's opinion is appropriate rather than the \$28,455.91 which Temescal considers the amount to be set forth as an account receivable from Corona.

Corona is attempting to use 1937 as the original dedication date. Using this date, applicants state a reproduction cost new of \$125,136.17, and a depreciation reserve requirement of

\$78,501.55. Corona proposes to incur a debt to Temescal in the amount of \$28,455.91 and proposes to credit to capital surplus \$18,178.71, representing the excess of depreciated plant acquired over the consideration proposed to be paid.

The staff's financial examiner cites excerpts from the 1910 and 1911 reports to the stockholders of Temescal which tend to show that the No. 3 line was in fact dedicated to domestic consumption as of 1911. He concludes, however, that accounting for the proposed transaction by both Temescal and Corona is governed by the prescribed Uniform System of Accounts for Water Utilities, Class A, B, C, applicable to both utilities, and included in his report journal entries for both Temescal and Corona conforming with accounting prescribed for the transactions proposed.

A Commission utilities engineer reviewed the application and made certain recommendations which will be adopted.

The Commission finds that the proposed transfer of the portion of the No. 3 line above described is not adverse to the public interest. The Commission further finds that the original 1911 cost of the line, plus improvements and minus deletions as set forth in both applicants' and the staff financial examiner's report, of \$45,198.48 as of January 1, 1962, is correct.

The Commission further finds that a depreciation reserve requirement equal to 62.73% of the depreciable base is reasonable and that the reserve requirement of \$28,353.01 and the net depreciated cost of \$16,845.47 is correct. The Commission further finds that the applicant Corona shall not be permitted to use the 1937 date as the date of dedication in determining plant values and depreciation reserve and that no sum shall be credited to capital surplus.

The Commission further finds that the book entries as proposed by the staff's financial examiner set forth on pages 5 and 10 of the staff's Memorandum Report of January 9, 1963, shall be the entries to be used by applicants Temescal and Corona, respectively, upon completion of the transaction, as modified as to consideration, hereinafter approved.

The Commission further finds that the Bill of Sale, Exhibit "F" on the application, should be amended to recite the consideration of \$16,845.47 and that as so amended said Bill of Sale may be executed and delivered by Temescal to Corona, the Commission hereby finding the proposed transfer will not be adverse to the public interest.

The Commission finds that a public hearing is not necessary.

The authorization herein granted shall not be construed as a finding of the value of the rights and properties herein authorized to be transferred.

The authorization herein granted is conditioned upon ultimate adjustment of all plant and depreciation reserve accounts of Temescal to an original cost basis, in order that plant values on its books correspond to those used in accounting for the retirement resulting from the sale. Any original cost and depreciation reserve studies used as a basis for adjustment of recorded plant and depreciation reserve balances will require approval of the Commission before such adjustments are recorded.

IT IS HEREBY ORDERED that:

1. Temescal Water Company may transfer to Corona City Water Company the water line known as its No. 3 Line, extending between Coldwater Weir and El Cerrito Weir in Temescal Canyon, Riverside County, California, consisting of the following:

5,765 feet of 20-inch steel pipe  
8,628 feet of 20-inch reinforced concrete pipe  
15,974 feet of 22-inch concrete pipe

The consideration for said transfer shall be the depreciated cost of said line, to-wit: \$16,345.47.

2. Coincident with the transfer of the No. 3 pipeline from Temescal Water Company to Corona City Water Company, Temescal Water Company is authorized to transfer to Corona City Water Company those domestic customers, previously found to be its customers served from the portion of the line being transferred. Corona shall notify the Commission in writing of the date service is rendered by it to those customers under its rates and rules, within ten days thereafter.

3. Corona City Water Company shall file with this Commission, after the effective date of this order and prior to the date service is first furnished to the customers being served from the line being transferred, in conformity with General Order 36-A and in a manner acceptable to the Commission, a revised tariff service area map showing the areas being served by Corona City Water Company and the new areas that will be served immediately from the line purchased from Temescal Water Company. The revised map shall become effective upon the fifth day after having been filed.

4. Corona City Water Company shall file, within thirty days after acquiring Line No. 3, four copies of a comprehensive map, drawn to an indicated scale not more than 400 feet to the inch, delineating by appropriate markings the area being served from Line No. 3; the water production, storage, transmission and distribution facilities and the location of the various water system properties.

5. Corona City Water Company is placed on notice that in any future rate proceedings the Commission may require it to demonstrate that the operation of the line herein transferred to it has not become a burden to its rate payers.

IT IS FURTHER ORDERED that Temescal and Corona shall respectively record the transaction as heretofore stated herein.

IT IS FURTHER ORDERED that if an amended Bill of Sale, in conformance with the order herein, is executed, three conformed copies of such agreement shall be filed with this Commission within thirty days after execution.

The authority herein granted shall expire if not exercised within sixty days after the effective date hereof.

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

Dated at San Francisco, California, this 19 day of MARCH, 1963.

[Signature] President  
[Signature]  
Frederic B. Helloff  
[Signature] Commissioners