

**ORIGINAL**Decision No. 66709

## 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

Donald D. Stark, for applicant.  
A. L. Gielegem, C. S. Strelinski, and  
C. O. Newman, for the Commission staff.

OPINION ON REHEARING

This application was filed as a direct result of the Commission's investigation into the status of Temescal Water Company (Temescal) and Corona City Water Company (Corona), Case No. 6098. The Commission held in Interim Decision No. 59443 in said case that Temescal is a public utility water company. During the hearings in that proceeding, Temescal indicated a desire to terminate any domestic water service, except through its affiliated company, Corona, and in Decision No. 65115 in Case No. 6098 the Commission ordered Temescal to file resale and irrigation rates only and also to complete studies of the original cost of its water system.

Temescal and Corona subsequently filed Application No. 44939 by which Temescal seeks to sell, and Corona seeks to acquire a portion of Temescal's No. 3 transmission line extending from its Coldwater Weir to its El Cerrito Weir from which Temescal is serving approximately 20 domestic consumers. In addition, the two companies seek to make certain bookkeeping entries to record the transfer. If this transfer is approved, Temescal will have no domestic consumers remaining.

On March 19, 1963, the Commission rendered an ex parte decision herein which required accounting entries differing from those requested by the applicants. The applicants filed a petition for rehearing on March 28, 1963, and on May 14, 1963, the Commission made its "Order Granting Rehearing". Pursuant to said order, hearings were held before Examiner Rogers in Los Angeles on July 1 and 29, 1963. On the latter date, the matter was argued and the parties were given permission to file written briefs before September 20, 1963. The staff indicated it did not intend to file written briefs. On November 19, 1963, counsel for applicants advised the Commission applicants waived the filing of a brief and the matter was submitted.

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, 30,367 feet in length which extends 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, an independent engineering consultant was employed to develop the depreciated historical cost of said line as of the claimed 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 the larger depreciated historical cost proposed to be recorded by Corona is shown as capital surplus in the proposed Corona journal entry.

The journal entries proposed 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 the sale to Corona City Water Company, as of January 1, 1962, of No. 3 line from Coldwater Weir to El Cerrito Weir, proposed entries are:

	<u>Description</u>	<u>Cost</u>	<u>Reserve</u>
5,765 ft.	20-inch Steel	\$11,585.98	\$ 4,291.72
8,628 ft.	20-inch Reinforced Concrete	6,935.92	2,569.23
15,974 ft.	22-inch Concrete	<u>26,676.58</u>	<u>9,881.62</u>
		<u>\$45,198.48</u>	<u>\$16,742.57</u>

The journal entries proposed to be entered on Corona's 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 as of January 1, 1962, of No. 3 line, from Coldwater Weir to El Cerrito Weir, the proposed entries are as detailed below:

	<u>Description</u>	<u>Cost</u>	<u>Reserve</u>
5,765 ft.	20-inch Steel	\$38,771.04	\$24,322.20
8,628 ft.	20-inch Reinforced Concrete	17,752.97	11,136.95
15,974 ft.	22-inch Concrete	<u>68,612.16</u>	<u>43,042.40</u>
		<u>\$125,136.17</u>	<u>\$78,501.55</u>

The records of Temescal show that the cost, not including overheads, of Line No. 3 as originally constructed was \$57,454.57. Such costs were not capitalized on the books of Temescal when the facility was constructed in 1911, but as was common with mutual water company accounting procedures in the past, were charged to operations, and periodic appraisals were made to restore and reflect plant values usually on the basis of replacement cost depreciated. The last such valuation of Temescal property was the "Kelly Appraisal" in 1924, which was booked replacing prior recorded plant costs at that time. Sufficient detail of the "Kelly Appraisal" is not available from which to determine the values applicable to the specified facilities proposed to be transferred to Corona, and to form the basis of an entry on the books of Temescal reflecting the sale and retirement of such properties.

The entry proposed by Temescal to record the sale of the subject facilities to Corona is based on original cost data obtained from its accounting records adjusted to reflect deletions, prior transfers, and capitalization of certain overheads thereby arriving at the adjusted cost of Line No. 3 of \$45,198.48 (Exhibit No. 1). Such figure allows for the prior transfer in 1937, as aforesaid, of a portion of the No. 3 line from Temescal to Corona.

By Temescal's proposed journal entries, the adjusted cost of \$45,198.48 would be credited to Temescal's plant accounts and its depreciation reserve account would be relieved of computed depreciation of \$16,742.57 and the difference of \$28,455.91, representing book value, and the consideration for the transaction, would be set out as a receivable due from Corona. The Commission's witness recommends that these entries be approved pending and subject to later adjustment of plant and depreciation reserve accounts of Temescal to an original cost basis in order that plant values on the books of Temescal with respect to the facilities proposed to be transferred be identical to those used in accounting for the retirement resulting from the sale.

Corona is attempting to use 1937 as the original dedication date. Using this date, applicants state as original cost, a reproduction cost new of \$125,136.17, and a depreciation reserve requirement thereon 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 proposed to be recorded 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 transmission of domestic water 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, Classes A, B, C, applicable to both applicants as utilities. He further states that the properties to be acquired by Corona constitute an operating unit, and under the Uniform System of Accounts should be booked by Corona at the same plant values and subject to the same depreciation reserve proposed by Temescal for its retirement accounting for the sale of the same properties. It is his opinion that the entries proposed by Corona are inappropriate in that they do not conform to said prescribed accounting procedures for such a plant acquisition, and, if the date of dedication is to govern as the basis of a deviation from prescribed accounting, there is a substantial indication that the line was intended primarily to supply domestic water and was dedicated to this purpose when constructed in 1911. He recommends that the transaction be recorded on Corona's books as follows:

<u>Account No.</u>	<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
100-1/391	Utility Plant Purchased	\$28,455.91	
223	Payables to Assoc. Companies		\$28,455.91

To record purchase of No. 3 line, from Coldwater Weir to El Cerrito Weir, for consideration based on depreciated original cost as detailed below:

<u>Description</u>	<u>Cost</u>	<u>Reserve</u>
5,765 ft. 20-inch Steel	\$11,585.98	\$4,291.72
8,628 ft. 20-inch Reinforced Concrete	6,935.92	2,569.23
15,974 ft. 22-inch Concrete	<u>26,676.58</u>	<u>9,881.62</u>
	<u>\$45,198.48</u>	<u>\$16,742.57</u>
100-1/343 Transmission & Distr. Mains	\$45,198.48	
250 Reserve for Depreciation		16,742.57
100-1/391 Utility Plant Purchased		28,455.91

To distribute to utility plant and depreciation reserve account balances of these accounts as they appear or will appear on the books of the transferor, Temescal Water Company.

In support of its request that the dedication be shown as of 1937, the applicant introduced exhibits showing that in 1897 Temescal granted to Corona certain physical facilities for transmitting domestic water in and to the City of Corona which did not include Line No. 3; that in 1910, Line No. 3 was constructed for transmitting irrigation water and some domestic water; that when the No. 3 line was constructed, it had a capacity of some 250 miner's inches constant flow; that through and until 1919, not to exceed 38½ inches constant flow of domestic water at any time was transmitted through the No. 3 line; that in December, 1937, the portion of the No. 3 line not involved herein was transferred to Corona City Water Company; that as late as 1919, less than one fifth of the total capacity of the No. 3 line was used for domestic water and that in 1937, the No. 3 line was used exclusively for domestic water.

It is the contention of the applicant that 1937 is the date of dedication of this line to domestic purposes and the contention of the staff that 1911 was the date of dedication.

The Hydraulic Section of the Commission staff investigated the engineering aspects of this matter. It was opposed to any transfer by Temescal until a full rate hearing. However, it made certain suggestions to be placed in effect if the transfer is authorized. Some of such recommendations appear reasonable.

#### Findings

Upon the record herein, the Commission finds:

1. That Temescal and Corona are public utility water companies operating as such under and pursuant to authority from this Commission.
2. That Temescal owns Line No. 3 extending from its Coldwater Weir to its El Cerrito Weir, a distance of approximately 30,367 feet, from which Temescal serves approximately 20 domestic consumers; and that said line was constructed in 1911.
3. That Temescal desires to discontinue domestic service; that Line No. 3 is, and for many years has been, used solely for transmitting domestic water for service to Temescal's domestic consumers; and that said Line No. 3 is a portion of Temescal's water system properties which this Commission referred to in Decision No. 65115, supra, in which it ordered Temescal to complete studies showing the original cost thereof.
4. That Temescal desires to transfer the No. 3 Line and all domestic consumers served therefrom to Corona; that Temescal proposes to retire the portion of the line set forth described herein from its plant accounts in the amount of \$45,198.48 and to charge \$16,742.57 to its reserves for depreciation, and to sell



the line to Corona for the depreciated cost of \$28,455.91; that said figures are based on the original cost to Temescal of the line in 1911; and that for the purposes of this opinion, only, said figures will be adopted.

5. That the Corona City Water Company proposes to record the transaction on the basis of a claimed 1937 date of dedication and valuation, adjusted to January 1, 1962; and that on this basis, Corona intends to charge its utility plant accounts with the sum of \$125,136.17, credit \$78,501.55 to its depreciation reserve account, credit accounts payable to Temescal with \$28,455.91 and credit capital surplus with \$18,178.71.

6. That No. 3 line is an operating unit of plant and has been in use as such by both Corona and Temescal since its construction in 1911; and that the date of dedication to domestic service is immaterial as the entire line has been, and presently is, owned and used by Temescal for public utility water service; that in accordance with the requirements of the Uniform System of Accounts prescribed by this Commission the properties transferred should be recorded by Corona at the original cost to Temescal of \$45,198.48, with a concurrent credit of \$16,742.57 to reserve for depreciation account.

7. That the proposed transfer is not adverse to the public interest.

Upon the foregoing findings the Commission concludes:

1. That the proposed transfer of the No. 3 line should be authorized.

2. That the transfer should be recorded on the books of Temescal and Corona based upon original cost to Temescal of \$45,198.48, less depreciation of \$16,742.57.

3. That the parties should be authorized to execute the bill of sale as proposed.

4. That the valuations herein authorized are subject to further order of this Commission.

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. Corona shall make corresponding adjustments in its books to record the acquisition of the No. 3 line after final adjustment of Temescal, as aforesaid.

ORDER ON REHEARING

IT IS ORDERED that the order in Decision No. 65088 is amended to read as follows:

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.

2. Corona City Water Company may pay Temescal Water Company therefor the sum of \$28,455.91 as specified in the bill of sale attached to the application as Exhibit "F", and the parties may execute said bill of sale provided that said consideration be adjusted as aforesaid to original cost basis as specified in the opinion herein.

3. 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 Temescal's 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.

4. 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 No. 96-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.

5. 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.

6. 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 ratepayers.

7. Within thirty days after transfer of the facilities herein authorized, Temescal Water Company and Corona City Water Company shall file with the Commission copies of journal entries recording such transfer on their respective books of account.

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 28<sup>th</sup> day of January, 1964.

William L. Bennett  
President  
John C. Mitchell  
Wendell W. Page  
Fredrick B. Hallock

Commissioners

Commissioner George G. Grover did not participate in the disposition of this proceeding.

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