

Buyer

California Consolidated is a public utility owning and operating water properties in areas in Santa Barbara County adjacent to Santa Maria. It is a wholly owned subsidiary of Consolidated Water Company (Delaware Consolidated), a Delaware corporation.

The basic water systems now owned and operated by California Consolidated were acquired from Miraflores Water Company, Incorporated,^{1/} Orcutt Town Water Company,^{2/} and S M Water Company.^{3/} California Consolidated serves approximately 2,900 customers.

Sellers

Edna Road and Vista are public utilities owning and operating water properties in San Luis Obispo County adjacent to Santa Maria. They also are wholly owned subsidiaries of Delaware Consolidated, and the proposed transfer will not change the present management and control of their operations.

Certificated areas were established in 1959^{4/} and 1961^{5/} for Edna Road and in 1961^{6/} for Vista. Edna Road has about 125 active metered services and Vista has approximately 218.

Rates and Rules

California Consolidated has not requested that the present Edna Road and Vista rates be changed upon transfer of the systems. As a result, California Consolidated will have five separate tariff areas. Although simplification of the multiplicity of rate schedules might be desirable, such changes are beyond the scope of the current proceeding.

1/ Decision No. 65710, dated July 16, 1963, in Application No. 45324.

2/ Decision No. 66319, dated November 19, 1963, in Application No. 45862.

3/ Decision No. 66478, dated December 17, 1963, in Application No. 45854.

4/ Decision No. 59384, dated December 15, 1959, in Application No. 41317.

5/ Decision No. 62546, dated September 12, 1961, in Application No. 43519.

6/ Decision No. 62184, dated June 27, 1961, in Application No. 42336.

The rules currently on file by California Consolidated are essentially the same as those of Edna Road and Vista. California Consolidated will be authorized to make its present rules effective throughout all of its tariff areas.

Proposed Transfer

The staff of the Commission's Finance and Accounts Division has reviewed this application for transfer and has prepared a report thereon which is hereby made a part of the record herein as Exhibit A.

Exhibit A shows that Delaware Consolidated acquired all of the outstanding common stock of Edna Road and Vista on January 28, 1964, as summarized in Table I.

TABLE I

<u>Utility</u>	<u>No. of Shares</u>	<u>Purchase Price</u>	<u>Net Book Value</u>
Edna Road	10,316	\$ 54,435	\$100,709
Vista	688	76,290	69,059
Total		<u>\$130,725</u>	<u>\$169,768</u>

California Consolidated proposes to acquire the stock of Edna Road and Vista from Delaware Consolidated for \$130,724.75 and to merge the properties of the three California utilities. Upon such merger, California Consolidated proposes to record the results of historical cost appraisals and reserve requirement studies, Exhibits Nos. 4 and 5 to the application, in lieu of recorded plant and depreciation reserve balances of Edna Road and Vista. This would reduce the recorded net plant balances by \$24,156. The staff states in Exhibit A that many of the entries in the books of account of Edna Road and Vista are inaccurate and unsupported. Based upon checks of the appraisal values against such actual invoices as were available, against unit construction costs of other nearby utilities, and against unit costs used in

connection with various main extension agreements of Edna Road and Vista, the staff concludes that the appraisal values represent estimated original cost conservatively stated, and that the change in depreciation reserve poses no problem because of the newness of the plant. Exhibit A indicates that California Consolidated overlooked an item of \$300 which should be added to plant accounts for a fire hydrant and an item of \$12,385 which should be added to advances for construction.

It is noted that the liabilities of Edna Road and Vista do not include any long-term indebtedness requiring Commission authorization for California Consolidated to assume. The application does not state how the purchase of Edna Road and Vista stock from Delaware Consolidated will be financed by California Consolidated, but the latter is hereby placed on notice that whatever permanent financing ultimately is to be effected must be in accordance with the admonition in Decision No. 66478, dated December 17, 1963, in Application No. 45854, which states:

"California Consolidated Water Company, Inc., is hereby placed on notice that the Commission will expect that appropriate steps will be taken to improve its capital structure to a more sound and acceptable ratio of not more than 60 percent combined debt and advances, and at least 40 percent equity capital."

California Consolidated is also placed on notice that if Edna Road or Vista have deviated from the requirements of their main extension rules in financing main extensions, such deviations are subject to review in any future rate proceedings.

Findings and Conclusion

The Commission finds that:

1. The transfer of all common stock of Edna Road and Vista from Delaware Consolidated to California Consolidated, as proposed herein, is not adverse to the public interest.

2. The subsequent transfer of the assets and liabilities of Edna Road and Vista to California Consolidated is not adverse to the public interest.

3. Exhibits Nos. 4 and 5 herein, modified as hereinbefore discussed, form a proper basis for journal entries related to the proposed transfer of plant.

4. Any increase in charges or more restrictive conditions resulting from the application of California Consolidated's rules to Edna Road's and Vista's present service areas will be justified upon transfer of the systems.

The Commission concludes that the application should be granted as set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. Within six months after the effective date of this order, California Water Company, Inc. (California Consolidated) is authorized to acquire all of the common stock of Edna Road Water Company, Incorporated (Edna Road) and Vista Water Co., Inc. (Vista), as proposed herein.

2. Within six months after acquisition of all of their common stock by California Consolidated, Edna Road and Vista are authorized to transfer all of their assets and liabilities to California Consolidated.

3. Upon acquisition of all of the assets and liabilities of Edna Road and Vista, California Consolidated is authorized to make the journal entries necessary to reflect those assets and liabilities, including the original cost and depreciation reserve requirement related to the utility properties shown in Exhibits

Nos. 4 and 5 to the application herein, modified to add appropriate amounts related to the advances for construction and the fire hydrant inadvertently omitted from those exhibits as discussed herein. Within sixty days after the date of actual transfer of assets and liabilities, California Consolidated shall file in this proceeding a copy of the journal entry or entries used to record the transfer in accordance herewith.

4. After the effective date of this order, and on or before the date of actual transfer of assets and liabilities as authorized herein, California Consolidated shall file additional and revised tariff sheets, including tariff service area maps, to provide for the application of (a) Edna Road's present rates to the territory acquired from that utility, (b) Vista's present rates to the territory acquired from that utility, and (c) California Consolidated's present rules to its entire territory. Such filing shall comply with General Order No. 96-A. The effective date of the revised tariff sheets shall be the date of actual transfer of assets and liabilities.

5. Within five days after the date of actual transfer, California Consolidated shall file in this proceeding a statement showing:

- (a) The date of its acquisition of the stock of Edna Road and Vista.
- (b) The date of actual transfer to it of the assets and liabilities of Edna Road and Vista.

6. Upon compliance with all of the conditions of this order, Edna Road and Vista shall stand relieved of their public utility obligations in the areas served by the transferred systems, and may discontinue service concurrently with the commencement of service by California Consolidated.

7. Until uniform rates are authorized to be placed in effect or until different accounting procedure is authorized by further order of this Commission, California Consolidated shall segregate plant investment, depreciation reserve, revenues, and direct operating expenses of the Edna Road and Vista systems from the rest of the utility operations.

The effective date of this order shall be the date hereof.

Dated at San Francisco, California, this 15th day of December, 1967.

Frederick B. Holdcroft
President
John E. Hartigan
Wesley W. Page
George H. Hoover
William M. Donald
Commissioners