

ORIGINAL

Decision No. 72400

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of the Southern California Water)
Company for an Order Authorizing)
the Issuance of Evidence of)
Indebtedness for the Acquisition)
of Property and Approving)
Accounting Entries.)

Application No. 49248
Filed March 28, 1967

O P I N I O N

This is an application for an order of the Commission
(a) authorizing Southern California Water Company to issue an
evidence of indebtedness in the amount of \$206,000 for the
acquisition of water system facilities serving the area
designated as Improvement Zone 2 of Ventura County Waterworks
District No. 8, the sum of \$206,000 representing the aggregate
principal amount of outstanding bonds which would cease to be
a burden upon the property taxpayers of said area, and (b)
approving a proposed method of accounting for said acquisition.

Applicant is a California corporation engaged in the
public utility water business in portions of the Counties of
Contra Costa, Imperial, Kern, Los Angeles, Orange, Sacramento,
San Bernardino and Ventura. In addition, it engages as a
public utility in distributing and supplying electricity at
Bear Valley in San Bernardino County.

The application shows that construction of the water system facilities which applicant proposes to acquire was financed through the issue of said bonds, and that a decline in land development sales has caused the property taxpayers of the area designated as Improvement Zone 2 of Ventura County Waterworks District No. 8 to be faced with a heavy and unreasonable burden attributable to the zone's bonded debt. Applicant proposes to acquire the water system facilities pertaining to said zone and to issue for such purpose an evidence of indebtedness whereby the company will provide funds for meeting payments of principal and interest applicable to the Zone 2 bonds, the final payment date being June 15, 1984.

It appears that the Zone 2 area is located within applicant's certificated areas, and that the proposal will relieve the property owners of the taxation burden arising from the related bonds.

Applicant's proposed journal entry for recording the acquisition is set forth in Exhibit G, attached to the application, as follows:

Ac.
No.

100	Utility Plant	\$164,548	
100.5	Utility Plant Acquisition Adjustments	<u>20,577</u>	
213	Miscellaneous Long Term Debt		\$185,125

To record the acquisition of property from
Improvement Zone 2 of Ventura County
Waterworks District No. 8 as set out below:

Outstanding bonded debt on property		\$206,000	
General bond payment reserve	\$18,825		
Cash remaining in bond fund	<u>7,000</u>		
Total		<u>\$25,825</u>	
Less amount applicable for July 15, 1967 interest	<u>4,950</u>		<u>20,875</u>
Indebtedness to be assumed by Company which represents Net Purchase Price			\$185,125
Property to be acquired:			
Transmission line	\$55,000		
Offsite tie line	15,300		
In-tract costs	89,198		
Meters - 101 estimated at \$50 ea.	<u>5,050</u>		<u>164,548</u>
Excess of Purchase Price over Property Cost			<u>\$ 20,577</u>

Notes appearing below said proposed journal entry indicate, among other things, that plant account detail was not available when the company filed the application, and that no provision will be made for past depreciation. The utility urges ex parte relief, whereas, the record in this proceeding contains neither sufficient plant account data nor sufficient justification for omitting a deduction for accrued depreciation, all of which would be pertinent to the proposed method of accounting.

Information contained in the application indicates that if applicant had originally provided the service in said Zone 2 area, it would have done so under the provisions of the Water Main Extension Rule. It is also apparent that the proposed

agreement, attached to the application as Exhibit E, differs in certain aspects from that which the Commission by Decision No. 71965, dated February 7, 1967, in Application No. 48802, authorized for California Water Service Company as a standard form contract for use in connection with the acquisition of water system facilities, the construction of which has been financed through issuance of assessment district bonds. For example, applicant's proposed agreement calls for a fixed price to be paid in annual installments of fixed amounts, plus interest semi-annually on principal balance due, per schedule incorporated therein. Such payments due are not geared to, and have no relation to, revenues which may be obtained from the tract in question. Therefore, it must be construed as a definite long-term debt contract obligation which must be paid off in full regardless of whether revenues are forthcoming or not.

The Commission has considered this matter and finds that: (1) the record is insufficient for approving applicant's proposed method of accounting, or a modification thereof; (2) the money, property or labor to be procured or paid for by the issue of the evidence of indebtedness herein authorized is reasonably required for the purpose specified herein; and (3) such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings we conclude that the application should be (a) dismissed without prejudice, insofar as it relates to applicant's proposed method of accounting and (b) granted in all other respects. A public hearing is not necessary.

The action taken herein is for the purpose of this proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates. Among other things, the Commission reserves the right to make an appropriate adjustment in rate base if resultant plant investment per customer is high.

O R D E R

IT IS ORDERED that:

1. Southern California Water Company, on or after the effective date hereof and on or before September 30, 1967, for the purpose specified in this proceeding, may issue an evidence of indebtedness in the amount of not exceeding \$206,000 in the same form, or in substantially the same form, as Exhibit E attached to the application.
2. Southern California Water Company shall set up on its accounting records an advances for construction memorandum account for the amount of in-tract facilities located in Tracts 1517-2 and 1517-3 which were installed in anticipation of additional service connections in the area designated as Improvement Zone 2 of Ventura County Waterworks District No. 8.
3. Within thirty days after issuing the evidence of indebtedness herein authorized, Southern California Water Company shall file with the Commission a copy thereof as actually issued, which shall be in lieu of a report under General Order No. 24-B.

4. This application, insofar as it relates to the approval of a proposed method of accounting as requested by Southern California Water Company, is hereby dismissed without prejudice.

5. This order shall become effective when Southern California Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$206.

Dated at San Francisco, California,
this 9th day of MAY, 1967.

[Signature]
President
[Signature]
[Signature]
Commissioners

Commissioner A. W. Gatev, being necessarily absent, did not participate in the disposition of this proceeding.

