

DEC 20 1990

Decision 90-12-092 December 19, 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
 of California-American Water)
 Company, a California Corporation,)
 for an order authorizing (1) the)
 purchase by and transfer to)
 California-American Water Company)
 of the assets which make up the)
 water distribution system of the)
 Monterey Research Park, formerly)
 known as the Ryan Ranch and now)
 owned by Neuville Company, N.V.,)
 (2) the commencement of service in)
 that territory by California-)
 American Water Company at the rates)
 then effective in the Monterey)
 District of California-American)
 Water Company and (3) the)
 recognition of a credit to the)
 California-American Water Company)
 acquisition adjustment by reason)
 of this transaction.)

ORIGINAL

Application 90-07-038
 (Filed July 12, 1990)

O P I N I O N

This decision conditionally grants the application of California-American Water Company (Cal-Am) to purchase from Neuville Company, N.V. (Neuville) a water distribution system serving the Monterey Research Park.

The application, filed July 12, 1990, states that the applicant is already a public utility serving the Monterey area and that Neuville installed the water distribution system at Monterey Research Park as part of a development project. The application proposes that service to Monterey Research Park customers be offered at the rates in effect for Cal-Am's Monterey District.

The application also states that Cal-Am is currently carrying on its books an unamortized acquisition adjustment of \$2,750,195 which arises out of applicant's original acquisition of

what is now Cal-Am. Cal-Am proposes that the unamortized acquisition adjustment be reduced by the amount of the net "negative acquisition adjustment" which would reduce the adjustment to \$1,526,182. The reduction of \$1,224,013 equals the net depreciated value added to Cal-Am's rate base by the requested acquisition in excess of Cal-Am's purchase price and costs.

The application includes a copy of the agreement of purchase and sale, service area maps, financial information, and proposed tariffs.

The Commission's Water Utilities Branch (Staff) undertook an investigation of Cal-Am's request and issued a report on October 25, 1990. Following review of the sales agreement, financial and accounting matters, rates and operational issues, the Staff recommends that the application be granted if the applicant will stipulate to a \$375,000 rate base. This recommendation, in effect, would not permit Cal-Am to deduct the negative acquisition adjustment from the acquisition adjustment currently on the books.

On October 30, 1990, counsel for the applicant mailed a letter to the assigned administrative law judge to inform the Commission that Cal-Am stipulates to the \$375,000 rate base recommended by Staff.

Subsequently by letter dated December 14, 1990, the Staff recommended that Cal-Am's proposal submitted by December 11, 1990 letter to book the acquisition at the purchase price of \$375,000 was reasonable and the utility be given exemption from recording the acquired plant at an original cost as required by the Commission's Uniform System of Accounts.

No protests to the application have been received. The Staff's proposed treatment of rate base is reasonable with the condition that Cal-Am's ratepayers will not be liable for additional tax obligations which could result if the Internal Revenue Service does not consider reasonable the booking of the

acquisition at the purchase price. We will, therefore, grant Cal-Am's application for the proposed transfer.

Findings of Fact

1. Cal-Am filed this application seeking to purchase from Neuville a water distribution system located in the Monterey area.
2. Staff undertook an investigation of the proposed transfer and recommended that it be granted subject to the condition that the rate base of the transferred property be set at \$375,000.
3. Cal-Am, by way of letter, stipulated to Staff's recommendation that the rate base be set at \$375,000.
4. Staff, by letter dated December 14, 1990, recommended that Cal-Am's proposal to book the acquisition at the sale price of \$375,000 is reasonable.
5. No protest to the application has been received.

Conclusion of Law

Cal-Am's application should be granted subject to the condition that the book value and rate base of the transferred property be set at \$375,000.

O R D E R

IT IS ORDERED that:

1. California-American Water Company's (Cal-Am) application is granted subject to the condition that the rate base of the transferred property be set at \$375,000.
2. Cal-Am is authorized to book the acquisition of Neuville Company's water system at the purchase price of \$375,000, with the condition that Cal-Am's shareholders shall assume liability for any tax obligation which may arise from this accounting treatment.
3. Within 5 days of the effective date of the completion of the sale, Cal-Am shall submit to the Water Utilities Branch of the Commission Advisory and Compliance Division evidence of the transfer.

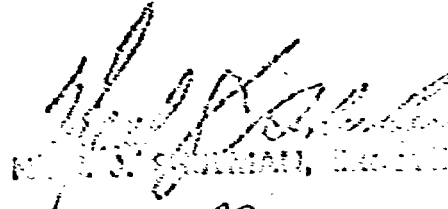
4. This grant of authority shall be effective for one year from the effective date of this order.

This order becomes effective 30 days from today.

Dated December 19, 1990, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY


JOHN B. OHANIAN, EASTERN DISTRICT
23