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Decision No. 92665 FEB 4 1981**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of A. Leggio & Sons
 Pursuant to Section 854 of the
 Public Utilities Code To Transfer
 Stock and Majority Control of
 Squirrel Mountain Water Company,
 a Public Utility.

Application No. 59770
 (Filed June 27, 1980;
 amended July 23, 1980)

O P I N I O N

By this application, as amended, and letter from applicants' attorney dated December 5, 1980, A. Leggio & Sons (Leggio) and Gerald and Margaret Trudell (the Trudells) seek authority, pursuant to Section 854 of the Public Utilities Code, for the following:

1. Leggio requests authority to issue and sell to the Trudells all of the 8,066 shares of common stock currently owned by Leggio in Squirrel Mountain Water Company (Squirrel Mountain).
2. Leggio requests authority to transfer majority interest and control of Squirrel Mountain to the Trudells.
3. The Trudells request authority to purchase the 8,066 shares of common stock, representing majority interest in Squirrel Mountain, from Leggio.
4. The Trudells request authority to control Squirrel Mountain.

In connection with this proceeding, Squirrel Mountain paid a fee of \$75 to the Commission under the mistaken belief that its Certificate of Public Convenience and Necessity was to be transferred. Since this is not the case, the utility is entitled to a refund of \$75.

Notice of the filing of the application and amendment appeared on the Commission's Daily Calendar of July 1 and July 30, 1980, respectively. No protests have been received.

Squirrel Mountain,^{1/} a California corporation, operates as a public water utility under the jurisdiction of this Commission. Squirrel Mountain engages in the sale and distribution of water near Lake Isabella in Kern County.

For the calendar year 1979, Squirrel Mountain reported in its Annual Report to the Commission that it generated total operating revenue of \$29,333 and net income of \$6,839. For the three months ended March 31, 1980, as shown in Exhibit C attached to the application, the utility reported total operating revenues of \$7,799 and net income of \$2,031.

Squirrel Mountain's Balance Sheet as of March 31, 1980, shown as part of Exhibit C, attached to the application and adjusted to reflect the transfer of land and equipment being transferred to Squirrel Mountain by Leggio, is summarized as follows:

<u>Assets</u>	<u>Recorded</u>	<u>Pro Forma</u>
Net Plant and Equipment	\$236,921	\$261,823
Current and Accrued Assets	<u>9,163</u>	<u>9,163</u>
Total	<u>\$246,084</u>	<u>\$270,986</u>
 <u>Liabilities and Equity</u>		
Common Stock Equity	\$ 81,118	\$106,020
Long-Term Debt	40,195	40,195
Current and Deferred Liabilities	3,088	3,088
Contributions in Aid of Construction	<u>121,683</u>	<u>121,683</u>
	<u>\$246,084</u>	<u>\$270,986</u>

Details of the transfer have been provided by Squirrel Mountain's attorney in his letter dated October 7, December 5 and December 24, 1980.

^{1/} Arden Water Company was incorporated in the State of California on January 2, 1957. On February 18, 1958, it changed its corporate name to Squirrel Mountain Water Company. The original name of Arden Water Company was reissued to another unrelated group of investors in Kern County on or about June 18, 1964. Both corporations serve as public water utilities in Kern County.

According to the application, as amended and further adjusted by Leggio's attorney in his letter of December 5, 1980, Leggio is the owner of the 8,066 shares of Squirrel Mountain's Common Stock, \$10 par value, having a book value of \$77,058. Leggio proposes to sell his shares and transfer his interest in Squirrel Mountain to the Trudells and the Trudells propose to purchase Leggio's shares and to acquire control of Squirrel Mountain.

The specific terms of the sale of the stock to the Trudells are as follows: Leggio has previously transferred 425 shares of Squirrel Mountain's common stock, for the price of \$10,000, to the Trudells. This was a private sale of a minority interest not requiring Commission approval. Leggio will now sell and transfer his remaining 8,066 shares of Squirrel Mountain's common stock to the Trudells which provides them with sole ownership. The Trudells will transfer to Leggio, as payment for the balance of his shares, a \$350,000 promissory note the Trudells own which is secured by a Deed of Trust on certain real property owned by Mr. and Mrs. Carbo. This promissory note, which bears interest at eight percent (8%) per year has a remaining life of 15 years and represents an indebtedness of Mr. and Mrs. Carbo to the Trudells. The Carbos are not parties to this proceeding, and this transaction will not affect the books of Squirrel Mountain or the assets owned by it. Applicants' attorney, by letter dated December 24, 1980, informed the staff that the real worth of the \$350,000 promissory note is about \$140,000 after discounting and after giving consideration to current interest rates of 16-19 percent for long-term debt with a remaining 15-year life.

In addition, Leggio has agreed to relieve the Trudells of personal indebtedness to him consisting of two promissory notes in the total principal amount of \$57,000 thereby resulting in a net transaction of \$293,000 of which the Trudells have already paid \$10,000 leaving \$283,000 remaining to be paid.

The Trudells are paying approximately \$143,000 more than the original cost of the plant and equipment, net of depreciation and contributions in aid of construction. The Trudells understand that rates for utility services will be based upon the depreciated original cost of plant, excluding contributed plant, and not on the purchase price of the stock.

After the above transactions have been consummated, the Trudells will own all 8,491 shares of Squirrel Mountain's issued and outstanding common stock.

According to Leggio's attorney's letter of December 5, 1980, Leggio has agreed to transfer to Squirrel Mountain land and equipment he owns and has used in the operation of Squirrel Mountain. The "fully developed and improved wells with fences, gates, etc." referred to in the attorney's letter dated October 7, 1980, was found to be erroneous since a staff inquiry has found these already recorded on Squirrel Mountain's books.

Leggio's transfer of land and equipment to Squirrel Mountain, is summarized as follows:

	<u>Original Cost</u>
Equipment	\$25,128
Less: Reserve for Depreciation	<u>19,186</u>
Net Equipment	5,942
Land	<u>18,960</u>
Total Land and Equipment to be Transferred	<u>\$24,902</u>

Following is a detailed listing of the land and equipment, including the original cost values, which Leggio will transfer to Squirrel Mountain:

<u>Land</u>	<u>Original Cost</u>
Lot 13, Tract 3106	\$ 900.00
Parcel 9, Tract 3783	11,073.00
Parcel 6, Tract 3783	6,462.00
Portions of Parcel 3, 4, & 7 in Tract 3783	<u>525.00</u>
Total	<u>\$18,960.00</u>
<u>Equipment</u>	<u>Depreciated Original Cost</u>
Ford 4500 Model Auto Digger Backhoe	\$ 734.92
1979 Chevrolet Pickup	2,208.85
Allis Chalmers One Half Yard Loader	1,615.69
1969 Hardtop Four Wheel Drive Jeep	0
Metal Storage Building	595.63
Metal Locater	294.18
Steel Desk and File	438.66
Homelite Chain Saw	53.87
Chains	0
Desk and Chair	0
Miscellaneous Equipment	<u>0</u>
Total (Total original cost before depreciation of the above assets was \$25,128.49)	<u>\$5,941.80</u>

According to Leggio's attorney in his letter of December 24, 1980, the land to be transferred from Leggio to Squirrel Mountain consists of approximately 60 acres. About one-half of this acreage is being used to provide utility water service. The remaining one-half of the acreage is to be used for well drilling exploration because it has good watershed potential.

The Uniform System of Accounts for Class D Water Utilities, adopted by Commission Decision No. 69950, dated November 16, 1965, provides that the properties, which are to be transferred from Leggio to Squirrel Mountain are to be recorded on the utility's accounting records at their original cost. Original cost is defined as the cost of such properties to the person first devoting them to public service. The system of accounts also provides that the utility is obligated to obtain from Leggio all existing records for the properties transferred including records of plant construction dates and costs and records of depreciation reserves applicable to such properties.

Leggio's attorney advises the Commission that Leggio is in poor health and wishes to sell his controlling interest in Squirrel Mountain and wishes to be relieved of the responsibility for operating the water company. The application and the letter from Leggio's attorney, dated October 7, 1980, indicate that the Trudells are knowledgeable in the operation of water companies, in general, and Squirrel Mountain, in particular.

The staffs of the Revenue Requirements Division and the Utilities Division have reviewed the application, as amended, and the contents of applicants' attorney's letters dated October 7, December 5, and December 24, 1980, have no objections to the proposed sale of stock and transfer of control, and conclude the application should be granted. The Utilities Division reserves the right to review the value of the assets transferred by Leggio to Squirrel Mountain in future rate proceedings.

Findings of Fact

1. Squirrel Mountain is a California corporation operating as a public water utility subject to the jurisdiction of this Commission.
2. The control of Squirrel Mountain by the Trudells would not be adverse to the public interest.
3. Squirrel Mountain has paid \$75 to the Commission under the mistaken belief that the Certificate of Public Convenience and Necessity was to be transferred. Since this is not the case, Squirrel Mountain is entitled to a refund of \$75.

Conclusions of Law

1. A public hearing is not necessary.
2. The application should be granted to the extent set forth in the order which follows.
3. The following order should be effective the date of signature so applicants can meet their transaction schedule.

The authorization, granted herein, is for the purpose of this proceeding only and is not to be construed as a finding of the value of the assets or capital stock of Squirrel Mountain.

O R D E R

IT IS ORDERED that:

1. On or after the effective date hereof and on or before December 31, 1981, for the purposes specified in the application, A. Leggio & Sons may sell and Gerald and Margaret Trudell may purchase all of the 8,066 remaining shares of Common Stock, \$10 par value, issued and outstanding in Squirrel Mountain Water Company.

2. Gerald Trudell and Margaret Trudell may control Squirrel Mountain Water Company.

3. Within ninety days after the date of this decision, A. Leggio & Sons and Gerald and Margaret Trudell shall issue reports informing the Commission whether or not the control authorized has been completed.

4. On or before the date of actual transfer, A. Leggio & Sons shall deliver to Squirrel Mountain Water Company and the corporation shall receive and preserve all records, memoranda, and papers pertaining to the land and equipment being transferred to the utility by A. Leggio & Sons. Within sixty days after completion of the transfer of the land and equipment, Squirrel Mountain Water Company shall file with the Commission a copy of each journal entry used to record the transactions on its books of account.

5. A refund of \$75 should be paid to Squirrel Mountain Water Company.

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

Dated FEB 4 1981 at San Francisco, California.

John E. Bryan

President
Richard W. Trudell

Thomas M. ...

Commissioners