

Decision No. 23875

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 CALIFORNIA WATER SERVICE COMPANY,)
 a corporation, for (1) Order author-)
 izing acquisition of stocks and bonds)
 of certain public utilities. (2))
 Jointly with Pacific Water Company, a)
 corporation, San Carlos Water Company,)
 a corporation, and Los Altos Water Co.,)
 a corporation, for order authorizing)
 purchase and sale of certain public)
 utility properties. (3) Order author-)
 izing mortgage of public utility proper-)
 ties. (4) Order authorizing issue and)
 sale of bonds and stock.)

ORIGINAL

Application No. 17509

McCutchen, Olney, Mannon & Greene,
 for applicants.

BY THE COMMISSION:

OPINION

In the above entitled matter the Railroad Commission is asked to enter its order authorizing:

1. California Water Service Company to acquire the outstanding stock and bonds of Pacific Water Company, San Carlos Water Company and Los Altos Water Co.
2. Pacific Water Company, San Carlos Water Company and Los Altos Water Co. to sell and transfer their businesses, properties and franchises to California Water Service Company.
3. Pacific Water Company, San Carlos Water Company and Los Altos Water Co. to discontinue their public utility operations upon the transfer of their properties.
4. California Water Service Company to execute and

deliver a supplemental indenture mortgaging the properties to be acquired by it, and subjecting the same to the lien of its trust indenture dated July 1, 1928.

5. California Water Service Company to issue and sell \$141,000.00 of its first mortgage five percent bonds, \$47,000.00 of its six percent preferred stock and \$47,000.00 of its common stock to finance in part the cost of said properties.

The application shows that California Water Service Company is a corporation organized under the laws of the State of California and engaged in the public utility water business in numerous municipalities and other localities within the state. From time to time, since its organization in 1926, it has acquired, by purchase, the properties of other water companies. It now desires to add to its properties through the acquisition of the properties of Pacific Water Company, operating in and about South San Francisco, San Mateo and Hillsborough, of San Carlos Water Company, operating in and about San Carlos, and of Los Altos Water Co., operating in and about Los Altos. To that end it has made arrangements to purchase the outstanding stock of the three companies and thereafter to cause the sale and transfer to it of the businesses, franchises and properties of said companies.

In making this application for an order permitting them to carry their proposals into effect, applicants Pacific Water Company, San Carlos Water Company and Los Altos Water Co. have filed financial statements setting forth the assets and liabilities of the selling companies, as of May 31, 1931, as follows:

<u>ASSETS</u>	Pacific Water Company	Los Altos Water Co.	San Carlos Water Company
Fixed capital.....	\$1,997,268.92	\$105,555.76	\$115,665.76
Current assets:			
Cash.....	5,334.72	1,704.23	574.48
Notes & accounts receivable	39,890.73	3,399.43	2,318.77
Materials and supplies....	12,826.84	955.07	1,180.66
Prepayments.....	2,643.57	164.99	117.55
Other.....	---	---	2,454.07
Total current assets.....	<u>60,695.86</u>	<u>6,223.72</u>	<u>6,645.53</u>
Intercompany accounts.....	1,732.81	1,500.00	---
Suspense.....	53,454.38	---	---
Discount on stock.....	---	90,866.00	---
Total assets.....	<u>\$2,113,151.95</u>	<u>\$204,145.48</u>	<u>\$122,311.29</u>

LIABILITIES

Capital stock-common.....	\$ 550,700.00	\$100,000.00	\$ 31,400.00
Bonds.....	800,000.00	---	---
Current liabilities:			
Notes & accounts payable..	54,344.58	1,608.63	1,702.57
Consumers' deposits.....	5,331.50	38.50	390.00
Construction deposits....	41,663.22	484.29	---
Improvement assessment....	2,628.36	---	---
Other.....	1.50	4.00	392.77
Total current liabilities..	<u>103,969.16</u>	<u>2,135.42</u>	<u>2,485.34</u>
Accruals.....	4,257.91	24.51	28.90
Intercompany accounts.....	361,240.19	40,413.28	4,978.78
Reserves.....	159,394.19	35,423.70	16,873.96
Capital surplus.....	67,423.52	31,350.00	27,324.48
Donations for construction..	---	---	42,832.00
Earned surplus.....	66,166.98	5,201.43*	3,612.17*
Total Liabilities.....	<u>\$2,113,151.95</u>	<u>\$204,145.48</u>	<u>\$122,311.29</u>

* Deficit

It appears that Raymond Beeny, secretary and treasurer of California Water Service Company, has entered into a contract for the purchase of all the outstanding stocks and bonds of Pacific Water Company, San Carlos Water Company and Los Altos Water Co. The respective par values of the outstanding capital stocks and bonds of each of the companies covered by the contract are as follows:

Pacific Water Company.....\$550,700.00 common stock
and \$800,000.00 of 5-1/2 percent bonds due
May 1, 1957
San Carlos Water Company..\$31,400.00 common stock
Los Altos Water Co.....\$100,000.00 common stock

It is reported that the amount of the purchase price to be paid by said Raymond Beeny for said stocks and bonds cannot at present be determined because the said contract for such purchase makes such price dependent upon the amount whereby current liabilities of said Pacific Water Company, San Carlos Water Company and Los Altos Water Co. exceed current assets of said companies at the date of the consummation of said purchase. It is also provided in such contract that the liabilities of said Pacific Water Company, San Carlos Water Company and/or Los Altos Water Co. in the total amount of \$380,323.95, representing intercompany indebtedness between said companies and other companies at present affiliated with the same, shall be cancelled at the date of the closing. Raymond Beeny proposes upon acquiring the said stocks and bonds to resell the same immediately to applicant California Water Service Company at and for the cost to him, including the price paid by him under said contract and costs and expenses in connection with the making of said contract, examination of said properties and the acquisition of said stocks and bonds. Applicant California Water Service Company desires to purchase and acquire the said stocks and bonds from said Raymond Beeny at and for the said cost to him.

After the acquisition of said stocks and bonds by applicant California Water Service Company, it proposes and desires to purchase and acquire from applicants Pacific Water Company, San Carlos Water Company and Los Altos Water Co., which companies propose and desire to sell and transfer to California Water Service Company the entire businesses, franchises and properties of said applicants Pacific Water Company, San Carlos Water Company and Los Altos Water Co. free and clear of liens except the lien of taxes and assessments and subject to current unsecured liabilities, except the intercompany indebtedness to which reference has been made, which intercompany

indebtedness shall be cancelled. Concurrently with the purchase, sale and transfer, applicant California Water Service Company proposes to surrender the \$800,000.00 of bonds of Pacific Water Company to Crocker First Federal Trust Company, trustee under the indenture securing the payment of said bonds, for cancellation by said trustee, and proposes to obtain from said trustee a reconveyance under the said trust indenture releasing said company's properties and franchises of Pacific Water Company from the lien of said bonds and of the trust indenture securing the same.

California Water Service Company thereafter intends to execute a supplemental trust indenture (Exhibit "C") for the purpose of subjecting to the lien and charge of that certain indenture, California Water Service Company to American Trust Company and Los Angeles First National Trust and Savings Bank as trustee, dated April 1, 1928, on said franchises and properties acquired from Pacific Water Company, San Carlos Water Company and Los Altos Water Co. This we find to be in satisfactory form.

Applicants Pacific Water Company, San Carlos Water Company and Los Altos Water Co. upon the sale and transfer of their respective properties desire permission to discontinue the public utility service which they are now rendering. This service will be undertaken and carried on by California Water Service Company.

The historical cost of the plant and property of the Pacific Water Company as of May 31, 1931 is reported at \$1,965,753.00, of the Los Altos Water Co. at \$107,628.70 and of the San Carlos Water Company at \$81,562.83. The accrued depreciation is estimated at \$151,809.27 for Pacific Water Company, at \$19,679.12 for Los Altos Water Co. and at \$10,274.15 for San Carlos Water Company. These latter estimates, it appears, are somewhat less than the credit balances in the depreciation reserves of the three companies as

reported by them in their 1930 annual reports heretofore filed with the Commission.

In connection with the financing of the purchase of the properties of the three companies, California Water Service Company reports that it has available \$1,685,000.00 of cash obtained from the sale to the City of Fresno of the water system formerly owned by it in that city. The excess needed over and above the \$1,685,000.00 it proposes to obtain from the issue of securities and it asks permission to issue and sell \$141,000.00 of first mortgage five percent bonds, due 1958, at 90, \$47,000.00 of six percent preferred stock at 90 and \$47,000.00 of common stock at par to meet such excess cost.

We have not completed our investigation of the historical cost and of the accrued depreciation of the properties of Pacific Water Company, San Carlos Water Company and Los Altos Water Co. and therefore are not in a position at this time to pass on California Water Service Company's request to issue additional stocks and bonds. Neither have we made a determination of the amount which California Water Service Company may charge to fixed capital accounts if it acquires the aforesaid properties. We believe that the purchase of the stocks and the sale and transfer of the properties referred to herein may be authorized now subject to the terms and provisions of the order following. The price which California Water Service Company may pay for the stock and/or properties of Pacific Water Company, San Carlos Water Company and Los Altos Water Co. shall be charged to a suspense account and carried thereunder until such time as the Commission makes a determination of the amount the company may charge to its fixed capital accounts.

O R D E R

Application having been made to the Railroad Commission as set forth in the preceding opinion, and the Railroad Commission being of the opinion that a public hearing at this time is not necessary and that it should now enter an order authorizing the transfer of the stock and properties of Pacific Water Company, Los Altos Water Co. and San Carlos Water Company to California Water Service Company, and granting other permission as set forth herein, therefore,

IT IS HEREBY ORDERED as follows:

1. California Water Service Company may acquire, on or before October 31, 1931, the outstanding stocks of Pacific Water Company, Los Altos Water Co. and San Carlos Water Company.
2. Pacific Water Company, San Carlos Water Company and Los Altos Water Co. may sell and transfer, on or before October 31, 1931, all of their businesses, franchises and properties to California Water Service Company, and California Water Service Company may purchase such businesses, franchises and properties, said properties being described in Exhibits B-1, B-2 and B-3 respectively filed in this proceeding.
3. Pacific Water Company, San Carlos Water Company and Los Altos Water Co. may discontinue their public utility services if, when and as the transfer of their properties to California Water Service Company becomes effective.
4. California Water Service Company may execute, on or before October 31, 1931, a supplemental indenture substantially in the same form as that filed in this proceeding as Exhibit "C".
5. California Water Service Company shall charge the price it may pay for the stocks and bonds and/or businesses, franchises and properties of Pacific Water Company, San Carlos Water Company and

Los Altos Water Co. to a suspense account and shall carry the amount in such account until such time as the Commission has entered a final order in this matter and determined to what accounts such price shall be distributed.

6. The authority herein granted is subject to the following conditions:

(a) California Water Service Company shall file with the Commission, within sixty days after the execution of deeds conveying to it the properties herein authorized to be sold and transferred, a copy of each and every deed so executed and at the same time a statement showing the exact date upon which it took possession of the properties of Pacific Water Company, San Carlos Water Company and Los Altos Water Co. and commenced to operate the same.

(b) The authority herein granted to execute a supplemental indenture is for the purpose of this proceeding only and is granted insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said supplemental indenture as to such other legal requirements to which it may be subject.

(c) The Commission reserves the right to make such further order in this proceeding as it may deem necessary with reference (a) to the issuing of securities by California Water Service Company for the purpose of paying in part for the stocks and bonds and/or businesses, franchises and properties of Pacific Water Company, San Carlos Water Company and Los Altos Water Co., (b) to the

the recording of the transactions referred to herein
on the books of account of California Water Service
Company and (c) to other matters.

DATED at San Francisco, California, this 7th day
of July, 1931.

C. S. Deaver

Lou Whitell

Fred G. Stewart

Commissioners.