

Decision No. 38235

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Gabriel Valley Water Company for authorization to issue and deliver 2,880 shares of its stock in exchange for all of the corporate assets and assumption of all of the liabilities of San Gabriel Valley Water Service; for authorization of Fontana Domestic Water Company to wind up its affairs and convey to said San Gabriel Valley Water Company, as its sole stockholder, all of its corporate assets subject to all of its liabilities; and for authorization of San Gabriel Valley Water Company to issue and sell \$600,000 principal value of its bonds.

Application
No. 26877-

Paul Overton, for applicants.

BY THE COMMISSION:

O P I N I O N

This application involves, among other things, the transfer of the properties of San Gabriel Valley Water Service and the properties of Fontana Domestic Water Company to San Gabriel Valley Water Company; the issue by the latter of 2,880 shares of stock and \$600,000 of 3-3/8 per cent first mortgage 25 year bonds, and the execution of a trust indenture to secure the payment of the bonds.

San Gabriel Valley Water Service is a corporation engaged in the production and distribution of water in the vicinities of El Monte and Whittier, Los Angeles County, and in

Indio and vicinity in Riverside County, Ca.

For 1944 the company reports the following operating revenues:

El Monte District	\$100,403.98
Whittier District	15,876.86
Indio District	<u>30,492.97</u>
Total	\$146,773.81

By Decision No. 38208, dated September 12, 1945, the Commission authorized San Gabriel Valley Water Service to sell its properties situate in Indio and vicinity to the City of Indio for \$110,000 subject to the adjustments mentioned in the agreement of sale. On the same date, by Decision No. 38209, it authorized the company to acquire, at a cost of \$3,800, the public utility water properties of Luisa C. Lopez.

As of December 31, 1944, San Gabriel Valley Water Service reports assets and liabilities as follows:

ASSETS

Fixed Capital	\$655,940.48
Cash and special deposits	21,227.72
Accounts receivable	2,848.95
Interest and dividends receivable	422.00
U. S. Tax Savings Notes	37,000.00
Materials and supplies	4,511.56
Prepayments	<u>7,114.29</u>
Total	<u>\$729,065.00</u>

LIABILITIES

Capital stock - 2,880 shares without par value	\$ 72,793.00
First mortgage 4% bonds, due May 1, 1966	291,000.00
Accounts payable	6,431.65
Interest accrued	1,940.00
Taxes accrued	5,040.27
Consumers' advances for construction	4,728.29
Donations in aid of construction	74,216.67
Reserve for accrued depreciation	99,076.03
Provision for federal income tax	25,850.00
Corporate surplus unappropriated	<u>147,989.09</u>
Total liabilities	<u>\$729,065.00</u>

Fontana Domestic Water Company is a corporation engaged in selling water for domestic purposes in Fontana and vicinity. For 1944 it reports operating revenues of \$89,410.32. Its assets and liabilities as of December 31, 1944, are reported as follows:

ASSETS

Fixed Capital	\$562,962.38
750 shares of stock of Fontana Union Water Company	125,000.00
Cash	8,200.56
Accounts receivable	2,926.84
Materials and supplies	8,355.22
Prepayments	479.28
Unamortized discount on securities and expense	6,697.16
Other suspense	688.75
Construction work in progress	<u>12.89</u>
Total assets	<u>\$715,323.08</u>

LIABILITIES

Capital stock - 2,000 shares, par value	
\$100 per share	\$200,000.00
4% Note payable to Fontana Union Water Company, due October 1, 1960	172,000.00
Amount due Fontana Farms Company	87,500.00
Accounts payable	4,210.84
Interest accrued	1,166.66
Taxes accrued	3,418.56
Consumers' advances for construction	5,597.30
Donations in aid of construction	53,496.71
Reserve for accrued depreciation	205,347.92
Deficit	<u>-17,414.91</u>
Total liabilities	<u>\$715,323.08</u>

William Stava, a Senior Engineer for the Commission, in Exhibit "9", shows the estimated original cost of the properties of Fontana Domestic Water Company at \$594,941.21, and the depreciation reserve requirements at \$131,745.88. The depreciation reserve requirements are calculated on a 5 per cent sinking fund basis. The \$594,941.21 includes \$75,000 as representing the current market value of the 750 shares of Fontana Union Water Company stock owned by Fontana Domestic Water Company. This stock is said to have cost the company \$125,000.

San Gabriel Valley Water Company is a corporation organized on February 26, 1945, under the laws of California. It has an authorized stock issue of 5,000 shares without par value. It asks permission to issue 2,880 shares of its stock to San Gabriel Valley Water Service in exchange for all of the corporate assets of that company subject to all of its indebtedness. The principal indebtedness of San Gabriel Valley Water Company on May 31, 1945, consisted of \$282,000 of 4 per cent first mortgage bonds, due May 1, 1966. As will appear hereafter, the new company intends to redeem these bonds.

Fontana Farms Company, which owns all of the outstanding stock of Fontana Domestic Water Company, has agreed to sell

such stock and 750 shares of stock of Fontana Union Water Company to R. H. Nicholson for \$96,000 in cash, subject to the adjustments mentioned in the agreement (Exhibit "7") and the assumption by him of the payment of \$254,000 of indebtedness. R. H. Nicholson has agreed to sell the stock of Fontana Domestic Water Company to San Gabriel Valley Water Company for \$96,000. In effect, he will assign his interest in the agreement to the company. Upon the acquisition of the stock of Fontana Domestic Water Company by San Gabriel Valley Water Company, the latter will cause the former corporation to be dissolved and its properties transferred to it.

To pay the indebtedness assumed by it, and for other purposes, San Gabriel Valley Water Company asks permission to issue at par \$600,000 of first mortgage, 3-3/8 per cent sinking fund bonds, Series A, due September 1, 1970. The bonds will be sold to Occidental Life Insurance Company of California (\$250,000), Northwestern Mutual Life Insurance Company (\$250,000), and Lincoln National Life Insurance Company (\$100,000). The company intends to use the proceeds from the bonds for the following purposes:

To pay bonds of San Gabriel Valley Water Service, approximately	\$296,100
To pay debts of Fontana Domestic Water Company	254,000
To pay for stock of Fontana Domestic Water Company	96,000
To pay expenses incident to this application and bond issue	13,900
To construct and acquire additional properties	<u>50,000</u>
Total	\$600,000

The testimony shows in general that the company has need for the \$50,000. It should in a supplemental application file with the Commission in more detail the specific purposes for which it will expend the \$50,000.

A copy of the proposed trust indenture securing the payment of the bonds has been filed in this application as Exhibit "1". We have examined the same and find it in satisfactory form.

Fontana Domestic Water Company obtains its entire water supply from Fontana Union Water Company through the ownership of 750 shares of stock of that company, together with such other stock as has from time to time been loaned to the company. The testimony shows that in order to have an adequate water supply it should own at least 500 additional shares of Fontana Union Water Company stock. As stated, the Fontana Farms Company, in its agreement with R. H. Nicholson, agrees to deliver for the consideration hereinbefore mentioned, not only the stock of Fontana Domestic Water Company but also 750 additional shares of stock of Fontana Union Water Company.

R. E. Boyle, President of Fontana Farms Company, testified that in his opinion the properties of Fontana Domestic Water Company can be more economically operated and financed when consolidated with San Gabriel Valley Water Service properties than they can independently. The Farms Company, which has permitted its employees to do work for the Water Company on a part-time basis, is in process of liquidation. As its staff is decreased it will become necessary for the Water Company to employ full-time employees, with the result that its operating expenses will be increased.

This decision does not authorize San Gabriel Valley Water Company to change any rates which San Gabriel Valley Water Service or Fontana Domestic Water Company now have on file with the Railroad Commission.

We will expect San Gabriel Valley Water Company, if it acquires the aforesaid properties, to keep its books of account in the manner prescribed by the Railroad Commission.

The law provides that the Commission shall have no power to authorize the capitalization of certificates of public convenience and necessity or the right to own, operate or enjoy such certificates of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificates of public convenience and necessity.

The action taken herein shall not be construed to be a finding of value for any purpose other than the proceeding herein involved.

O R D E R

A public hearing having been held in the above entitled matter before Examiner Fankhauser, and the Commission being of the opinion that the money, property or labor to be procured or paid for through the issue of the stock and bonds herein authorized by San Gabriel Valley Water Company is reasonably required for the purposes stated in this order, and that such purposes, except the payment of accrued interest and bond issue expenses, are not reasonably chargeable to operating expenses or to income, and that this application should be granted subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED as follows:

1. San Gabriel Valley Water Service may, after the effective date hereof and on or before December 31, 1945, exchange all of its properties subject to all of its liabilities for 2,880 shares of stock with no par value of San Gabriel Valley Water Company, which shares of stock said San Gabriel Valley Water Company may issue.
2. San Gabriel Valley Water Company may, after the effective date hereof and on or before December 31, 1945, acquire all of the outstanding stock of Fontana Domestic Water Company at a cost of \$96,000 and assume indebtedness of that company in the amount of \$254,000.
3. Fontana Domestic Water Company may, after the effective date hereof and on or before December 31, 1945, transfer all of its assets subject to said indebtedness to San Gabriel Valley Water Company.
4. San Gabriel Valley Water Company may, after the effective date hereof and on or before December 31, 1945, execute

a trust indenture in, or substantially in, the same form as the trust indenture filed in this application as Exhibit "1", and issue at not less than their face value and accrued interest, \$600,000 of first mortgage, 3-3/8% sinking fund bonds, Series A, due September 1, 1970. The proceeds other than accrued interest obtained from the sale of said bonds shall be used for the following purposes:

To pay outstanding bonds of San Gabriel Valley Water Service, approximately	\$296,100
To pay notes and other indebtedness of Fontana Domestic Water Company	254,000
To pay for stock of Fontana Domestic Water Company	96,000
To pay expenses of bond issue and expenses incident to this application, approximately	13,900
For additions and betterments or the acquisition of properties, as may hereafter be authorized by a supplemental order or orders, about	<u>50,000</u>
Total:	\$600,000

5. San Gabriel Valley Water Company, if it acquires the aforesaid public utility properties, shall operate the Fontana Domestic Water Company properties under the rates, rules and regulations which that company now has on file with the Commission, and shall operate the San Gabriel Valley Water Service properties under the rates, rules and regulations which that company now has on file with the Commission, until such time as the Commission authorizes it to change said rates, rules and regulations. San Gabriel Valley Water Company shall adopt said rates, rules and regulations.

6. San Gabriel Valley Water Company shall, on or before December 31, 1945, if it acquires said public utility water properties, file with the Railroad Commission a suitable

map or sketch, drawn to an indicated scale upon a sheet 8½x11 inches in size, delineating thereupon in distinctive markings the boundaries of the present service area in which Fontana Domestic Water Company is authorized to conduct a public utility water business, and the boundaries of the present service area in which San Gabriel Valley Water Service is authorized to conduct a public utility water business, provided, however, that such map or sketch shall not thereby be construed by this Commission, or any other public body, as a final or conclusive determination or establishment of the dedicated area of service, or any portion thereof.

7. San Gabriel Valley Water Company, if it acquires said water properties, shall file with the Commission on or before December 31, 1945, four copies of a comprehensive map, drawn to an indicated scale of not less than 600 feet to the inch, upon which shall be delineated by appropriate markings the territory now served by Fontana Domestic Water Company and by San Gabriel Valley Water Service. This map shall be reasonably accurate as to source and date thereof, and include sufficient data to determine clearly and definitely the location of the property comprising the entire utility area of service of Fontana Domestic Water Company and of San Gabriel Valley Water Service, provided, however, that such map shall not be thereby considered by this Commission, or any other public body, as a final or conclusive determination or establishment of the dedicated area of service, or any portion thereof.

8. The authority herein granted will become effective when San Gabriel Valley Water Company has paid the fee prescribed by Section 57 of the Public Utilities Act.

9. San Gabriel Valley Water Company shall file with the Commission a report, or reports, required by the Commission's General Order No. 24-A, which order, in so far as applicable, is made a part of this order. It shall also file with the Commission within thirty (30) days after their execution, two certified copies of the trust indenture securing the payment of said \$600,000 of bonds, and a copy of the deed and bill of sale under which it acquires and holds title to the properties now owned by Fontana Domestic Water Company and by San Gabriel Valley Water Service.

Dated at San Francisco, California, this 25th day of September, 1945.

David Anderson
James F. Carpenter
Richard L. Hachse
Frank O. Clor
Frank D. Delee
 Commissioners

