

Decision No. 48117

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
PARK WATER COMPANY, a corporation,)	Application
LOS NIETOS WATER COMPANY, a corpora-)	No. 33285
tion, and BELLFLOWER LAND AND WATER)	(First Supplemental)
COMPANY, a corporation, for authority)	
to merge.)	
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O P I N I O N

In this proceeding the Commission is asked to make an order authorizing Park Water Company, Los Nietos Water Company and Bellflower Land and Water Company to enter into and to put into effect an agreement of merger.

The original filing in this proceeding was made on April 3, 1952. Thereafter, a public hearing was held with no protests being received with respect to the proposed merger. On June 24, 1952, the Commission entered its Decision No. 47319 denying applicants' request, because of lack of underlying documents to support the reported original costs of the water systems to be merged, but without prejudice, however, to the filing by applicants of a supplemental application containing an historical cost appraisal and related depreciation studies. The supplemental application was filed on November 28, 1952, along with an appraisal report prepared by W. P. Rowe & Son. The matter now is ready for final decision.

The three corporations are engaged in operating public utility water systems in Los Angeles County. ⁽¹⁾ The systems are

(1) Applicants' 1951 annual reports show the number of active service connections at the close of the year and the revenues during the year as follows:

	<u>Park</u>	<u>Los Nietos</u>	<u>Bellflower</u>
Service connections	24,296	1,449	855
Operating revenues	\$495,521	\$28,158	\$15,047
Net income	\$ 60,198	\$ 5,290	\$ 2,071

located in the same general area, are physically connected in many places, are under the same management and are controlled by the same interests. The outstanding stock is reported held by the following individuals:

	<u>Park</u>	<u>Los Nietos</u>	<u>Bellflower</u>
H. W. Wheeler, president	\$1,172,500	\$75,100	\$11,900
O. D. Collins, vice-president	44,275	100	-
V. E. Motz, secretary	<u>343,225</u>	<u>800</u>	<u>100</u>
Totals	<u>\$1,560,000</u>	<u>\$76,000</u>	<u>\$12,000</u>

The record shows that applicants' officers and shareholders desire to consolidate the ownership and operations in one corporation and that to this end they propose to place into effect an agreement of merger dated as of March 31, 1952, whereby Park Water Company has been designated as the surviving corporation to take over and succeed to all the assets, rights and properties, subject to all the debts and liabilities, of the constituent corporations, the merger to take effect as of March 31, 1952.

Upon thus succeeding to the assets and liabilities of the merging corporations, Park Water Company will take into its books the ledger balances of the merging corporations as of the date indicated, with the exception of those for the fixed capital and depreciation reserve accounts and the equity capital. It asks authorization to restate the books and to set up the amounts appearing in the historical cost appraisal of the properties of Los Nietos Water Company and Bellflower Land and Water Company which has been filed in this proceeding as Exhibit A attached to the supplemental application. A comparison of the book balances with the appraisal figures is as follows:

	<u>Books</u>	<u>Appraisal</u>
Los Nietos Water Company -		
Fixed capital	\$114,622.88	\$118,951.00
Depreciation reserve	17,404.57	22,121.73
Net fixed capital	<u>\$ 97,218.31</u>	<u>\$ 96,829.27</u>
Bellflower Land and Water Company -		
Fixed capital	\$ 86,511.86	\$108,870.00
Depreciation reserve	10,787.88	15,032.56
Net fixed capital	<u>\$ 75,723.98</u>	<u>\$ 93,837.44</u>

The record indicates that present book balances in some cases are incomplete and that in many instances no supporting data exist with respect to amounts appearing in the fixed capital accounts. The appraisal report, on the other hand, contains inventory quantities to which have been applied costs incurred in construction, where available, and estimated historical costs where actual figures were not obtainable, and includes the depreciation requirement computed on the straight line method using estimated useful lives of the various items of property. The net effect of substituting appraisal figures for book balances is an increase in the net fixed capital of \$17,724.42.

As to the equity capital, the agreement of merger provides that the outstanding shares of stock of Los Nietos Water Company and Bellflower Land and Water Company will be surrendered for cancellation and that there shall be delivered to the holders thereof cash, in lieu of new shares of stock, in amounts based upon the stated capital and surplus. The amounts of the cash payments to be thus made are reported by applicants at \$142,237.12.

Park Water Company reports that as of the proposed effective date of the merger it had on hand \$440,000 of proceeds received from the issue of stock authorized by the Commission by Decision No. 45673, dated May 8, 1951, in Application No. 32254. It proposes, and here asks authorization, to use \$211,885.53 of said proceeds to make the cash payment of \$142,237.12 required by the terms of the merger agreement and to pay \$69,648.41 of open accounts representing moneys owing by Los Nietos Water Company and Bellflower Land and Water Company for additions and betterments.

A pro forma statement of the assets and liabilities of the surviving corporation, as of March 31, 1952, giving effect to the

proposed merger and to the withdrawal of cash funds for the purposes indicated, is as follows:

<u>Assets</u>		
Fixed capital		\$3,527,901.55
Less-depreciation reserve		<u>328,091.44</u>
Net fixed capital		3,199,810.11
Current assets -		
Cash	\$ 633,971.18	
U.S. Treasuries and interest	500,309.69	
Notes receivable	1,766.58	
Accounts receivable	49,315.47	
Materials and supplies	114,085.20	
Deferred expenses	<u>11,250.50</u>	
Total current assets		<u>1,310,698.62</u>
Total		<u>\$4,510,508.73</u>
<u>Liabilities and Net Worth</u>		
Long-term notes		\$2,000,000.00
Current liabilities -		
Accounts payable	\$ 127,079.84	
Accrued liabilities	81,406.17	
Service billed in advance	<u>15,026.13</u>	
Total current liabilities		223,512.14
Equity capital -		
Common stock	2,000,000.00	
Donated surplus	26,300.00	
Corporate surplus	<u>260,696.59</u>	
Total equity		<u>2,286,996.59</u>
Total		<u>\$4,510,508.73</u>

A review of the record shows that the merger should result in economies in operation through the elimination of the separate corporate organizations and the necessity of keeping separate records and allocating expenses among the three separate entities. It appears that no changes in operating practices are contemplated. Park Water Company proposes to apply its presently filed rates, rules and regulations throughout the areas served by the other companies.

Upon a full review of the evidence of record in this proceeding we are of the opinion that the proposed merger will not be adverse to the public interest, that the restatement of the book accounts should be authorized, and that the financial position of the

surviving corporation is such as to warrant an order authorizing the use of cash proceeds from the sale of stock for the purposes set forth in this decision. There are only minor differences in the rate structures of the three companies and we are of the opinion and hereby find that the proposal of Park Water Company to apply its rates in the territory now served by Los Nietos Water Company and Bellflower Land and Water Company, following the consummation of the merger agreement, is fair and reasonable and that any increase of rates resulting therefrom is justified.

ORDER

The Commission having considered the above entitled matter and being of the opinion that a further hearing is not necessary and that applicants' requests should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Park Water Company, Los Nietos Water Company and Bellflower Land and Water Company are authorized to execute and put into effect the agreement of merger dated as of March 31, 1952.

2. The order in Decision No. 45673, dated May 8, 1951, in Application No. 32254, hereby is modified so as to permit Park Water Company to distribute \$142,237.12 of the proceeds from the sale of the stock authorized by said decision to the present shareholders of Los Nietos Water Company and Bellflower Land and Water Company, in accordance with the terms of said agreement of merger, and to use \$69,648.41 of said proceeds to pay outstanding open accounts, ^{added} the Commission being of the opinion that the expenditures for said purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.)

3. Park Water Company, upon consummation of the merger agreement, may set up on its books in its fixed capital and

depreciation reserve accounts the amounts appearing in the appraisal of W. P. Rowe & Son which is filed in this proceeding.

4. Park Water Company shall base the annual accruals to depreciation upon the appraisal figures thus recorded in its accounts, less the estimated net salvage and the calculated depreciation reserve, over the estimated remaining life of the property. Applicant shall review the accruals for each plant account at intervals of not more than five (5) years, and also when major changes in plant composition occur, and shall submit the results of these reviews to the Commission.

5. Following the consummation of the merger agreement, Park Water Company, in accordance with the procedure prescribed by General Order No. 96, and on not less than five (5) days' notice to the Commission and to the public, shall cancel the tariffs now on file with the Commission governing service by Los Nietos Water Company and Bellflower Land and Water Company and shall supplement its own tariffs so as to show that they apply to the territory formerly served by said Los Nietos Water Company and Bellflower Land and Water Company.

6. If the authority herein granted is exercised, Park Water Company, within thirty (30) days thereafter, shall notify the Commission in writing of its compliance with the conditions hereof.

7. The authority herein granted will become effective twenty (20) days after the date hereof.

Dated at San Francisco, California, this 6th day of

January, 1953.

R. E. [Signature]
President

Justin F. [Signature]
Harold P. [Signature]

[Signature]
[Signature]
Commissioners