

**ORIGINAL**

Decision No. 48648

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of	)	
	:	
MOUNTAIN PROPERTIES, INC., a	)	
California corporation, and DESERT	:	
WATER CO., a California corporation,	)	Application
under the provisions of Section 851	:	No. 34371
of the Public Utilities Code, for	)	
the right to consolidate into a new	:	
corporation to be known as Pacific	)	
Water Co.	:	
-----	)	

In the Matter of the Application of	)	
	:	
MOUNTAIN PROPERTIES, INC. and DESERT	)	
WATER CO., (after consolidation into	:	
PACIFIC WATER CO., a California cor-	)	Application
poration) to mortgage their properties	:	No. 34372
under the provisions of Section 851	)	
of the Public Utilities Code.	:	
-----	)	

O P I N I O N

In these proceedings the Commission is asked to enter an order authorizing Desert Water Co. and Mountain Properties, Inc. to consolidate their properties and operations into a new corporation named Pacific Water Co. and authorizing said new corporation to issue shares of stock, to execute a mortgage and deed of trust and to issue bonds in the aggregate principal amount of \$500,000.<sup>1/</sup>

Desert and Mountain are public utility water corporations, the former operating in unincorporated areas in San Bernardino County and the latter in unincorporated areas in Orange, Los Angeles, Kern and San Bernardino counties. The corporations are affiliated. Each has the same officers and the same board of directors. The out-

<sup>1/</sup> In this decision Desert Water Co. will be referred to as Desert, Mountain Properties, Inc. as Mountain and Pacific Water Co. as Pacific.

standing shares of common stock of Desert are held by J. L. Lyon and of Mountain by J. L. Lyon and G. C. Lyon, although the latter corporation has outstanding shares of preferred stock held by others.

Financial reports filed with the Commission indicate the increases during the last three years in the operative property and business of both companies, as follows:

		<u>Services</u> <u>Dec. 31</u>	<u>Plant</u> <u>Dec. 31</u>	<u>Operating</u> <u>Revenues</u>	<u>Net</u> <u>Increase</u>
Desert	- 1950	180	\$ 165,215	\$ 5,371	\$ ( 137)
	1951	330	207,307	10,296	1,156
	1952	513	340,614	17,359	4,670
Mountain	- 1950	4,823	664,102	124,992	24,356
	1951	6,209	1,177,745	193,765	24,447
	1952	6,527	1,326,682	221,729	14,767

At December 31, 1952, Desert had outstanding common stock in the amount of \$22,400 and surplus of \$142,681.23 with no mortgage debt, and Mountain had outstanding preferred stock of \$229,000, common stock of \$79,200, surplus of \$129,434.82 and mortgage debt in favor of Pacific Mutual Life Insurance Company in the amount of \$286,600.

The applications show that applicants' systems are located in areas of rapidly increasing population, that both are faced with the necessity of expanding their facilities and that both are in need of funds from external sources for this purpose. It is reported that Pacific Mutual Life Insurance Company will not increase the amount of its loan but that Connecticut Mutual Life Insurance Company has agreed to advance the sum of \$500,000, provided that the operations and properties of the two companies be consolidated under one ownership.

It appears that applicants' directors and more than two-thirds of the shareholders of each class of stock have approved an agreement of consolidation whereby Desert and Mountain will be

consolidated into a new corporation, named Pacific Water Co., which will succeed to and become the owner of all the properties of the two present companies, subject to outstanding debts and obligations, and will issue its shares of stock in exchange for the presently outstanding shares upon the basis of one share of its preferred stock for each share of preferred stock of Mountain of the same par value and dividend rate, and will issue shares of its common stock in amounts based on the book values as of December 31, 1952, of the outstanding common shares of Desert and Mountain. Pacific's authorized shares of stock and those to be outstanding if the proposed plan is carried into effect, are as follows:

	<u>Authorized Shares</u>	<u>To be outstanding</u>	
		<u>Shares</u>	<u>Par Value</u>
Preferred -			
Class A, 6%, \$10 par	10,000	7,800	\$ 78,000
Class B, 5%, \$10 par	60,000	15,100	151,000
Class C, 3%, \$10 par	<u>30,000</u>	-	-
Total preferred	100,000	<u>22,900</u>	<u>229,000</u>
Common, \$1 par	<u>1,000,000</u>	<u>370,000</u>	<u>370,000</u>
Totals	<u>1,100,000</u>	<u>392,900</u>	<u>\$599,000</u>

The shares of Class B preferred stock are to be convertible at the option of the holders up to and including December 31, 1956, into shares of common on the basis of eight common shares for each Class B share. Dividends on Class A and Class B shares are cumulative at the rates indicated but dividends on the Class C shares are noncumulative. Holders of preferred shares of all three classes will be entitled to ten votes for each of such shares.

Applicants have filed a pro forma statement indicating for 1952 consolidated revenues of \$240,903.34 and net profit of \$19,438.62 after deducting depreciation, taxes and interest. The exhibits supporting the applications indicate that Pacific will set up on its books the fixed capital accounts and depreciation reserves of Desert and Mountain. A pro forma statement of assets, liabilities

and capital as of December 31, 1952, is as follows:

Assets

Fixed capital	\$1,667,297.04	
Less-depreciation reserves	<u>170,473.43</u>	
Net fixed capital		\$1,496,823.61
Current assets		64,452.79
Deferred debits		<u>13,489.31</u>
Total		<u>\$1,574,765.71</u>

Liabilities and Capital

Long-term debt	\$ 302,997.49	
Current liabilities	165,374.59	
Advances for construction	428,505.59	
Donations in aid of construction	75,171.99	
Preferred stock	229,000.00	
Common stock	370,000.00	
Surplus	<u>3,716.05</u>	
Total		<u>\$1,574,765.71</u>

Applicants report that in order to refinance the present long-term indebtedness represented by the Pacific Mutual Life Insurance Company loan of \$286,600, to pay short-term obligations of \$109,230.15 and to provide funds for future capital extensions and for working capital, they have made arrangements to borrow \$500,000 from Connecticut Mutual Life Insurance Company, such sum to be represented by First Mortgage Bonds, Series A. The bonds will bear interest at the rate of 4½%, will mature June 1, 1973, and may be redeemed on or before June 1, 1957, at a premium of 5% of the principal amount and thereafter at a premium decreasing one point every four years.

The payment of the bonds will be secured by an indenture of mortgage and deed of trust providing for the creation of the initial issue of Series A bonds in the amount of \$500,000 and for the issue thereafter of additional bonds of Series A or other series as provided in the indenture. A copy of the form of the instrument has been filed in Application No. 34372 as Exhibit C.

Upon reviewing these two applications we are of the opinion that the proposed consolidation will not be adverse to the public interest, that Pacific will have need for funds to improve its cash position and to meet capital requirements, that the money, property or labor to be procured or paid for by the issue of the stock and bonds herein authorized is reasonably required for the purposes specified herein, that the expenditures for such purposes, other than accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that we should enter an order granting applicants' requests.

The action taken herein shall not be construed to be a finding of the value of the properties herein authorized to be consolidated.

#### ORDER

The Commission having considered the above entitled matters, and being of the opinion that public hearings are not necessary and that the applications should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Desert Water Co. and Mountain Properties, Inc. may execute an agreement of consolidation in the form filed in Application No. 34371 as Exhibit E, and may consolidate their properties and operations into Pacific Water Co.
2. Pacific Water Co. may assume the payment of the outstanding debts and obligations of Desert Water Co. and Mountain Properties, Inc. and may issue not exceeding \$78,000 par value of its preferred Class A shares of stock, not exceeding \$151,000 par value

of its preferred Class B shares of stock, and not exceeding \$370,000 par value of its common stock in carrying out the terms of the agreement of consolidation.

3. Pacific Water Co. may issue from time to time such of its shares of common stock as are required to be issued upon conversion of said preferred Class B shares.

4. Pacific Water Co. may execute an indenture of mortgage and deed of trust in, or substantially in, the same form as that filed in Application No. 34372 as Exhibit C, and may issue, on or before December 31, 1953, at their principal amount plus accrued interest, not exceeding \$500,000 in principal amount of its First Mortgage Bonds, Series A, Due June 1, 1973, for the purpose of refinancing outstanding indebtedness, of meeting capital requirements and of providing working capital. The accrued interest may be used for general corporate purposes.

5. The rates, rules and regulations of Desert Water Co. and Mountain Properties, Inc. now on file with the Commission shall be refiled within 30 days after the date of consolidation under the name of Pacific Water Co., in accordance with the procedure prescribed by General Order No. 96, or, in lieu of such refiling, Pacific Water Co. may file a notice of adoption of said presently filed rates, rules and regulations. No increase in the present rates shall be made unless authorized by the Commission.

6. Pacific Water Co. shall file with the Commission a copy of each journal entry used to record on its books the acquisition of the properties of Desert Water Co. and Mountain Properties, Inc. and the distribution to primary fixed capital and other accounts, such data to be filed within six months after completion of the consolidation.

7. All deposits which customers of Desert Water Co. and Mountain Properties, Inc. are entitled to have refunded shall be transferred to and become the obligation for refund of Pacific Water Co.

8. If the authority herein granted is exercised, Pacific Water Co., within 30 days thereafter, shall notify the Commission in writing of the date of the completion of the consolidation herein authorized and of its compliance with the conditions hereof.

9. Pacific Water Co. shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

10. The authority herein granted will become effective when Pacific Water Co. has paid the fee prescribed by Section 1904(b) of the Public Utilities Code.

Dated at San Francisco, California, this 1<sup>st</sup> day of June, 1953.

*Q. J. D. [Signature]*  
President

*Justin J. Cooney*

*Harold P. [Signature]*

*Harriet P. [Signature]*

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

