

ORIGINAL

Decision No. 54256

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Palm Springs Water Company to Purchase from Robert H. Sherrill, Lola I. Sherrill, Philip H. Wedel and Marion H. Wedel, the Issued and Outstanding Capital Stock of Cathedral City Water Company, Inc., and of Palm Springs Water Company and Cathedral City Water Company, Inc. for Authority to Issue Notes

Application No. 38554

O P I N I O N

In this application Palm Springs Water Company ^{1/} requests the Commission to issue an order authorizing it to purchase, from the holders thereof, all of the issued and outstanding capital stock of Cathedral City Water Company, Inc., ^{2/} and to issue its promissory notes in partial payment of the purchase price of said stock, and for Cathedral and Palm Springs jointly, to issue promissory notes to refund, in part, existing indebtedness of Cathedral.

Each applicant is a California corporation and operates a public utility water system in the general Palm Springs area. In its September 30, 1956 balance sheet, Palm Springs reports its investment in fixed assets at \$1,446,757.80 after deducting a reserve for depreciation balance of \$428,711.82. With the

1/ Hereinafter referred to as Palm Springs.

2/ Hereinafter referred to as Cathedral.

exception of \$40,000 obtained through the issuance of a note to its principal stockholder, Palm Springs has financed its investment in utility plant and other assets through the issue of common and preferred stock and through the use of retained earnings. As of September 30, 1956, Palm Springs has an equity capital of \$1,009,900.34. It reported net profits of \$101,157.28 for the year 1955, and of \$106,411.09 for the nine months ended September 30, 1956.

Cathedral serves the unincorporated community of Cathedral City. In its income statement, attached to the application as Appendix A, it reports a net profit after taxes and depreciation of \$4,573.63 for the nine months ended September 30, 1956. Its assets and liabilities, as reflected by its September 30, 1956 balance sheet, are as follows:

<u>Assets</u>		
Utility plant	\$176,765.03	
Less: Reserve for depreciation	<u>48,938.74</u>	\$127,826.29
Cash		1,905.71
Other current assets		<u>6,735.65</u>
Total		<u>\$136,467.65</u>
<u>Liabilities</u>		
Notes payable		\$ 28,986.13
Current and accrued liabilities		6,082.02
Advances for construction		65,306.04
Net worth -		
Capital stock	\$35,000.00	
Earned surplus	<u>1,093.46</u>	<u>36,093.46</u>
Total		<u>\$136,467.65</u>

The holders of the outstanding capital stock of Cathedral desire to dispose of their holdings, and Palm Springs, whose lines extend within one mile of Cathedral City, is desirous

of acquiring this stock and of operating the water system of Cathedral as its subsidiary corporation.

To accomplish this objective, the holders of Cathedral's outstanding stock executed, under date of October 12, 1956, an option in favor of Palm Springs under the terms of which Palm Springs may acquire the outstanding stock of Cathedral at an agreed purchase price of \$81,000, to be paid \$5,000 on the exercise of the option, \$18,400 on the effective date of any order of the Commission approving the acquisition of Cathedral stock, and the balance of \$57,600 to be paid over a period of ten years in equal annual installments of \$5,760, with interest on the deferred balances being computed at the rate of 4-1/2% per annum. In addition, promissory notes payable of Cathedral totaling \$31,986.13 as of the date of the option, are to be reduced to \$15,000 by payment of \$16,986.13 to the note holders as of the effective date of any order issued by the Commission approving the acquisition of the stock. The remaining \$15,000 is to be covered by a new promissory note issued jointly by Cathedral and Palm Springs, which note provides for repayment over a period of ten years in annual installments of \$1,500 with interest on the deferred balances being computed at the rate of 4-1/2% per annum. The option to acquire the stock expires 120 days after October 12, 1956.

The authority herein requested is for the acquisition of stock and the issue of promissory notes. Applicant Palm Springs is not by this application requesting the Commission to accept the purchase price it proposes to pay for the stock as a measure of value for rate-making purposes. Palm Springs proposes, within two

years, to present to the Commission by a separate application subsequently to be filed, its plan of liquidating Cathedral and of acquiring its assets in such liquidation.

From a review of the application, it appears that Palm Springs is in a position to exercise adequate managerial control over the operations of Cathedral and that it is financially able to meet the financial obligations it will incur by reason of the acquisition of the stock of Cathedral. It also appears that the earnings of Cathedral will be sufficient to offset the interest charges which Palm Springs will incur through the issuance of its promissory notes in part payment of the purchase price of the capital stock of Cathedral. Under such conditions, it does not appear that the proposed acquisition by Palm Springs of the outstanding capital stock of Cathedral will be adverse to the public interest and an order will be entered granting the application as requested. In making this finding, it is the Commission's opinion that the money, property or labor to be procured or paid for by the issue of the promissory notes herein authorized is reasonably required for the purposes specified herein and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The authority herein granted is not to be construed as being indicative of amounts to be included in a future rate base of either company for the purpose of determining just and reasonable rates.

ORDER

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary and that the application should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Palm Springs Water Company, after the effective date hereof and on or before June 30, 1957, may acquire the issued and outstanding stock of Cathedral City Water Company, Inc.
2. Palm Springs Water Company, after the effective date hereof and on or before June 30, 1957, may issue its promissory note or notes in the principal amount of not to exceed \$57,600 in part payment of the purchase price to be paid for the outstanding capital stock of Cathedral City Water Company, Inc., such note or notes to be in, or substantially in, the same form as that filed in this proceeding as Appendix C to the application.
3. Cathedral City Water Company, Inc. and Palm Springs Water Company, jointly, after the effective date hereof and on or before June 30, 1957, may issue a promissory note or notes in the principal amount of not to exceed \$15,000, to refund, in part, existing indebtedness of Cathedral City Water Company, Inc., such note or notes to be in, or substantially in, the same form as that filed in this proceeding as Appendix C to the application.
4. Palm Springs Water Company and Cathedral City Water Company, Inc. shall file with the Commission, a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

5. The authority herein granted will become effective when applicants have paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$83.

Dated at San Francisco, California, this 14th day of December, 1956.

Peter E. Mitchell President
Louis M. ...
...
R. Hardy
E. J. ... Commissioners

