

ORIGINAL

Decision No. 57449

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of PACIFIC WATER CO., a California corporation, and BIG BEAR PINES WATER COMPANY, a California corporation, under Section 852 of the Public Utilities Code for authority of Pacific Water Co. to acquire all of the issued and outstanding stock of Big Bear Pines Water Company and under Section 851 of the Public Utilities Code for authority to merge Big Bear Pines Water Company into Pacific Water Co.

Application No. 40417

O P I N I O N

This is an application for an order of the Commission (1) authorizing Pacific Water Co. to acquire the stock of Big Bear Pines Water Company and (2) authorizing Pacific Water Co. and Big Bear Pines Water Company to merge.

Applicants are public utility water corporations in southern California, Pacific Water Co. operating in various places in the Counties of Los Angeles, Orange, Kern and San Bernardino and Big Bear Pines Water Company in the Sugar Loaf area and the Lakewood-Woodland area in Bear Valley, San Bernardino County. For 1957 they have reported the following:

	<u>Pacific</u>	<u>Big Bear</u>
Operating revenues	\$274,190	\$ 8,529
Net operating revenue, before depreciation	15,285	<u>4,234</u>
Depreciation	38,568	<u>4,672</u>
Utility income	\$ <u>23,283</u>	\$ <u>8,906</u>
No. of consumers	7,627	354

On February 18, 1958, by Decision No. 56261, the Commission established rates for Big Bear Pines Water Company which were designed to produce annual net operating revenues of \$550, after providing of approximately \$2,500 for depreciation. The Commission found that not all the company's facilities were properly includable in the rate base.

It appears that the two corporations are controlled by the same interests, are under the same management and have the same principal place of doing business. ^{1/} Big Bear Pines Water Company, for the most part, has been financed with moneys advanced by Pacific Water Co. which amounted to \$62,735.85 as of April 30, 1958.

Those in control of the two corporations have concluded to merge them into one organization. They report that Big Bear Pines Water Company has been unable to borrow funds from banks or other

^{1/} The outstanding common stock was reported held on December 31, 1957 by the following:

	<u>Pacific</u>	<u>Big Bear</u>
J. L. Lyon	\$338,603	\$ 500
George C. Lyon	22,947	-
Dorothy J. Lyon	950	-
J. L. Lyon, trustee	<u>7,500</u>	<u>-</u>
Total	<u>\$370,000</u>	<u>\$ 500</u>

financial institutions for capital improvements, that it does not have sufficient resources to repay the sums borrowed from Pacific Water Co., and that the bondholder and stockholders of Pacific Water Co. are desirous of having the assets of Big Bear Pines Water Company transferred to it so that such assets will be subject to the bonding capacity of Pacific Water Co.

Under the arrangements which have been made, J. L. Lyon will sell the outstanding shares of stock of Big Bear Pines Water Company to Pacific Water Co. for the sum of \$18,562.50, which is said to represent the cost to Mr. Lyon, and thereafter the two corporations will enter into a merger whereby Big Bear Pines Water Company will be merged into Pacific Water Co. and the latter, as the surviving corporation, will succeed to all the property, rights, privileges and franchises of Big Bear Pines Water Company, subject to all liabilities and obligations.

The recorded assets, liabilities and net worth of the two corporations as of March 31, 1958, and the pro forma balance sheet as of the same date, giving effect to the merger, are reported as follows:

<u>Assets</u>	<u>Big Bear Pines Water Company</u>	<u>Pacific Water Co.</u>	<u>Total</u>
Utility plant	\$213,866	\$2,304,286	\$2,518,152
Less - Reserve	<u>35,745</u>	<u>163,279</u>	<u>199,024</u>
Net utility plant	178,121	2,141,007	2,319,128
Current assets	819	284,979	285,798
Deferred debits	<u>6,999</u>	<u>156,437</u>	<u>163,436</u>
Total	<u>\$185,939</u>	<u>\$2,582,423</u>	<u>\$2,768,362</u>
 <u>Liabilities and Net Worth</u>			
Long-term debt	\$ -	\$ 734,150	\$ 734,150
Current liabilities	67,836	311,042	378,878
Contracts payable	27,788	9,783	37,571
Other credits	1,975	132,997	134,972
Consumers' advances	-	478,152	478,152
Contributions	-	125,891	125,891
Preferred stock	-	368,530	368,530
Common stock	500	370,000	370,500
Capital surplus	164,010	74,917	238,927
Earned surplus	<u>(76,170)</u>	<u>(23,039)</u>	<u>(99,209)</u>
Total	<u>\$185,939</u>	<u>\$2,582,423</u>	<u>\$2,768,362</u>

The pro forma balance sheet indicates that the merged corporation at the outset will have a capital structure as follows:

Long-term debt	\$ 734,150	35.1%
Advances	478,152	22.9
Preferred stock	368,530	17.6
Common stock and surplus	<u>510,218</u>	<u>24.4</u>
Total	<u>\$2,091,050</u>	<u>100.0%</u>

While it is true the pro forma balance sheet indicates a combined deficit of \$99,209, reference to the Commission's files shows, so far as Pacific Water Co. is concerned, that its deficit did not develop until 1957, a surplus having been reported prior to that year, and that the Commission during the last year has reviewed the company's operations and has granted rate relief designed to produce additional gross revenues of \$156,270.

Although the surviving corporation will take over the accumulated deficit of Big Bear Pines Water Company, the recent rate increase granted that company should result in that system being able to meet its depreciation requirements and to pay its operating and maintenance costs without drawing on the remainder of the system of Pacific Water Co.

Under the circumstances as presented in this application, we are of the opinion, and so find, that the proposed merger will not be adverse to the public interest and that the application should be granted. In making our order we place applicants on notice that our action is not to be construed as a finding of value of the stock or properties of Big Bear Pines Water Company nor as indicative of amounts to be included in a future rate base, or in operating expenses, for the purpose of determining just and reasonable rates.

O R D E R

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. Pacific Water Co., on and after the effective date hereof, and on or before December 31, 1958, may acquire all the outstanding stock of Big Bear Pines Water Company.

2. Big Bear Pines Water Company and Pacific Water Co., on and after the effective date hereof and on or before December 31, 1958, may enter into a merger whereby Big Bear Pines Water Company is merged into Pacific Water Co., and Pacific Water Co. succeeds to all the property, rights, privileges and franchises of Big Bear Pines Water Company, subject to all its liabilities and obligations.

3. On and after the date of actual merger, Pacific Water Co. is authorized and directed to charge and apply in the present service area of Big Bear Pines Water Company the rates presently charged by the latter company and its own rules now on file and in effect throughout its entire system.

4. Pacific Water Co., if it accomplishes the merger hereinabove authorized, shall, within 30 days thereafter, file the rates authorized herein and revise its presently effective tariff schedules, including tariff service area maps, to provide for the application of said tariff schedules in the present service area of Big Bear Pines Water Company in a manner acceptable to the Commission and in accordance with the procedure prescribed by General Order No. 96. Such rates and revised tariff sheets shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

5. If the authority herein granted is exercised, Pacific Water Co. within 30 days after the merger shall notify the Commission in writing of the date of the merger. Within six months after the completion of the merger, it shall file with the Commission a copy of each journal entry used to record on its books the acquisition of

Big Bear Pines Water Company and the distribution to primary plant and other accounts. Such distribution shall be made in accordance with Utility Plant Instruction No. 4 of the Uniform System of Accounts.

6. Pacific Water Co. shall maintain separate records of its investment in and operations of the system to be acquired from Big Bear Pines Water Company.

7. The authority herein granted shall become effective 20 days after the date hereof.

Dated at San Francisco, California, this 15th day of October, 1958.

[Signature]
President

[Signature]

[Signature]

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Commissioners