

ORIGINAL

Decision No. 6107S

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA WATER & TELEPHONE COMPANY

For authority to (1) acquire stocks of COACHELLA VALLEY TELEPHONE COMPANY, a public utility corporation and (2) to issue up to 72,500 shares of its common stock in exchange for the issued and outstanding stocks of Coachella Valley Telephone Company, and (3) for an order approving the terms and conditions of such issuance and exchange, after a hearing upon the fairness thereof.

Application No. 42688

Bacigalupi, Elkus & Salinger, by Claude N. Rosenberg, for applicant; Jack O. Sanders, Public Utilities Engineer of the Department of Public Utilities and Transportation of the City of Los Angeles, interested party.

O P I N I O N

In this application, the Commission is asked to enter its order -

- (1) Authorizing California Water & Telephone Company to acquire up to 100% of the issued and outstanding shares of common and preferred stock of Coachella Valley Telephone Company,
- (2) Authorizing California Water & Telephone Company to issue up to 72,500 shares of its common stock, \$12.50 par value each, in exchange for shares of common and preferred stock of Coachella Valley Telephone Company, and
- (3) Approving the terms and conditions of such issuance and exchange of shares after a hearing upon the fairness thereof.

The application was filed on September 22, 1960. A public hearing was held before Examiner Coleman in Los Angeles on November 1, 1960, after notice had been given by publication and by mailing to those to whom applicant proposes to issue its shares of stock. The matter was taken under submission at the conclusion of the hearing.

Coachella Valley Telephone Company presently has outstanding 76,191 shares of common stock and 5,000 shares of preferred stock of the par value of \$20 each and of the aggregate par value of \$1,623,820. California Water & Telephone Company now proposes to make an offer to the holders of these outstanding shares that they exchange their holdings for common shares of California Water & Telephone Company on the following bases:

9/10ths of one share of common stock of California Water & Telephone Company for each share of common stock of Coachella Valley Telephone Company, and

3/4ths of one share of common stock of California Water & Telephone Company for each share of preferred stock of Coachella Valley Telephone Company.

Both corporations are engaged as public utilities in rendering telephone service in portions of Riverside County. It appears that the present exchange areas of Coachella Valley Telephone Company are adjacent to the operating areas of the Palm Springs District of California Water & Telephone Company. Should the proposed stock acquisition be approved and consummated, it is the intention of California Water & Telephone Company, for

the time being, at least, to continue the separate existence of Coachella Valley Telephone Company and to operate that company's properties using personnel of its Palm Springs District. Applicant is of the opinion that the acquisition of control, as now proposed, should result in economies in the operation of the properties of the two companies, primarily in the fields of maintenance, commercial and accounting, and in more expeditious handling of interexchange facilities, although it was not in a position at the hearing to estimate the effect of such savings, dollar-wise.

With respect to the issue and exchange of stock, the evidence shows that the book value of the Coachella Valley Telephone Company's common stock as of July 31, 1960, was \$22.43 a share, that such shares are not traded on the market and that it has not been the practice of the company to pay cash dividends. As to the preferred shares of Coachella Valley Telephone Company, the holders of these are entitled to, and have received, quarterly dividends at the rate of 25 cents a share.

On the other hand, the common shares of California Water & Telephone Company as of July 31, 1960, had a book value of \$21.42 so that 9/10ths of this amount, being the fraction to be given in exchange for each share of Coachella Valley Telephone Company's common stock, is \$19.28. The testimony shows that applicant's common shares are traded on the over-the-counter market, the prevailing price being approximately \$30 a share,

and that dividends have been paid for many years, those for the last five years being \$1.00 a share in 1955 and 1956; \$1.20 a share in 1957 and 1958; \$1.22 a share in 1959, with a further increase to \$1.36 in 1960. Should all the outstanding shares of Coachella Valley Telephone Company be surrendered for exchange, applicant will be called upon to issue up to 72,500 of its shares. Applicant presented testimony showing that during 1960, the operations of Coachella Valley Telephone Company should produce an estimated amount of \$1.86 a share on 72,500 shares, as compared with the current dividend rate of \$1.36 a share, and that said estimated amount of \$1.86 a share is approximately the same as applicant expects to earn on the average amount of all its common shares outstanding during the current year.

The Commission recently has reviewed the results of operations of Coachella Valley Telephone Company and by Decision No. 59765, dated March 8, 1960, approved increases in rates which were designed to produce a return of 5.8% on a rate base of \$4,303,344 for the estimated year 1960, and at the same time directed Coachella Valley Telephone Company to make certain improvements to its facilities and service, which improvements, according to the record now before us, will call for the expenditure of approximately \$1,150,000 during 1960 and \$1,100,000 during 1961.

California Water & Telephone Company operates telephone exchanges outside of Riverside County, one of which exchanges, for the most part, is within the City of Los Angeles and the

company is one of four companies providing telephone service within the extended area of the City of Los Angeles. The City of Los Angeles, through its representative, stated that it was not opposed to the acquisition of Coachella Valley Telephone Company by California Water & Telephone Company provided that the Commission condition such acquisition with adequate safeguards so as not to cast a cost or rate burden upon the present telephone subscribers. It appears to be the thought of the city that the proposed stock transfer and the ultimate transfer of the physical properties could burden the metropolitan area telephone subscribers of California Water & Telephone Company by requiring higher over-all system rates.

We have considered this application carefully. The matter of rates, of course, is not before us at this time nor is the transfer of the properties of Coachella Valley Telephone Company a part of this proceeding. From the evidence before us, it is clear that the proposed acquisition of stock by California Water & Telephone Company will not result in any increase in rate base or operating expenses with respect to the telephone system of Coachella Valley Telephone Company; that the operations of Coachella Valley Telephone Company should be ample to provide for the dividends on the shares of stock which California Water & Telephone Company now proposes to issue; that there should be no drain on the resources of the existing telephone business of applicant in meeting the requirements it will assume upon completion of the transaction covered by this application; and that California Water & Telephone Company

should be able to finance the cost of plant additions more readily and at a lower rate than could Coachella Valley Telephone Company. We find and conclude therefore (1) that the proposed issuance and exchange of securities is for a proper purpose and that the terms and conditions of such issuance and exchange are fair; (2) that such issuance and exchange of securities should be approved; (3) that there is no necessity to attach to our authority any condition with respect to rates as requested by the City of Los Angeles; and (4) that the proposed acquisition by California Water & Telephone Company of control of Coachella Valley Telephone Company is not adverse to the public interest.

On the basis of these findings, we will enter our order granting applicant's requests. This order is not to be construed as a finding of the value of the stock and properties of Coachella Valley Telephone Company nor as indicative of amounts to be included in a future rate base for the determination of just and reasonable rates.

O R D E R

A public hearing having been held on the above-entitled matter and the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required for the purpose specified herein, and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:

1. California Water & Telephone Company may acquire and hold up to 100% of the issued and outstanding shares of common and preferred stock of Coachella Valley Telephone Company.

2. California Water & Telephone Company, on or after the effective date hereof and on or before June 30, 1961, may issue up to 72,500 shares of its common stock, \$12.50 par value each, in exchange for shares of common and preferred stock of Coachella Valley Telephone Company at the exchange ratios and on substantially the same terms outlined in this application. The Commission hereby approves the terms and conditions of such issuance and exchange of shares of stock.

3. California Water & Telephone Company 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.

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

Dated at San Francisco, California, this 22nd day of November, 1960.

[Signature]
President

[Signature]

[Signature]

[Signature]

Theodore Jenner
Commissioners