

ORIGINAL

Decision No. 66140

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of San Gabriel Valley Water
Company for an Order Authorizing
it to Acquire Stock of Vallecito
Water Company.

Application No. 45443
(Filed May 17, 1963)

Brobeck, Phleger & Harrison, by Robert N. Lowry,
and John F. Skelton, for applicant.
William M. Lassleben, Jr., for Vallecito Water
Company, protestant.
Raymond E. Heytens, for the Commission staff.

O P I N I O N

San Gabriel Valley Water Company (San Gabriel) seeks authority pursuant to Section 852 of the Public Utilities Code, to purchase the stock of Vallecito Water Company (Vallecito) which furnishes water service to approximately 3,200 customers in unincorporated territory of Los Angeles County adjoining San Gabriel's El Monte Division service area on the east thereof.

Public hearing was held before Examiner Warner on August 13, 1963, at Los Angeles. Vallecito protested on the grounds that a majority of its Board of Directors and shareholders of record owning a majority of shares of Vallecito's issued and outstanding stock had, on June 4, 1963, agreed to sell its assets to Suburban Water Systems (Suburban) which adjoins Vallecito on the southeast, and had, on the date of the hearing herein, filed a joint application with Suburban for Vallecito to sell and Suburban to purchase.^{1/} Vallecito argued, therefore,

1/ Application No. 45688 filed August 19, 1963, scheduled to be heard on November 15, 1963.

that if that application were granted, the granting of the instant application would be moot. San Gabriel argued that this might not be true.

San Gabriel provides water service to more than 49,000 customers in Los Angeles and San Bernardino Counties, including more than 23,000 customers in its El Monte Division.

Its total assets as of June 30, 1963, as shown on Exhibit No. 1, were \$10,917,943 including \$10,148,209 of net utility plant; \$672,666 of current assets; and \$97,068 of other assets. Total current liabilities as of the same date were \$351,548, and total other liabilities of \$1,674,657 included \$1,635,291 of advances for construction. Long-term debt amounted to \$5,000,000 and total capital \$3,891,738.

San Gabriel's witness, its vice-president, treasurer, and director, who is also a director of Vallecito, testified that another San Gabriel vice-president and director is also a director of Vallecito. San Gabriel proposes to purchase 11,118 shares of Vallecito's capital stock from R. H. Nicholson, San Gabriel's Chairman of the Board, at a price equal to his net cost, but in no event to exceed \$12.15 per share. Nicholson, by an agreement with San Gabriel, dated May 14, 1963, will sell his stock to San Gabriel under those conditions. Additionally, San Gabriel proposes to purchase for cash from any others not more than 27,214 shares of Vallecito stock at a price not exceeding \$16.10 per share.

San Gabriel's purpose is to acquire control of Vallecito through purchase of a majority of Vallecito's shares which would be 8,049 shares more than those to be acquired from Nicholson. The total cost to San Gabriel would be \$573,299.10, and the average cost per share would be \$14.95.

San Gabriel proposes to exercise its stock purchase authority sought herein, permissively; and to place Nicholson's stock in escrow until such time as the total shares of stock, numbering 8,049, in addition to the Nicholson stock, are obtained. ✓

San Gabriel contends that substantial benefits would redound not only to stockholders but to rate payers from the integration of the operations of San Gabriel and Vallecito; that San Gabriel could operate Vallecito without the necessity of applying for rate relief; that San Gabriel's financial position is excellent and that the purchase of Vallecito's stock would not adversely affect such position; that Vallecito is sorely in need of financial assistance to effect \$200,000 to \$300,000 of necessary rehabilitation of its water system; that San Gabriel has a \$500,000 open account with Bank of America and, therefore, has ready funds available to purchase Vallecito's stocks, and with unutilized bondable plant in excess of \$1,500,000 at June 30, 1963, and authorized common and preferred stock available, temporary financing would be replaced with permanent capital at an appropriate time and at reasonable costs; and that, for these reasons, the granting of the application would be in the public interest.

Vallecito's advances for construction, as of December 31, 1962, amounting to \$928,697, were 60 per cent of its total investment in plant and other assets amounting to \$1,535,721, and unpaid refunds of such advances amounted to \$155,037 as of the same date. Shareholders' equity was \$559,524.

The offering price of \$16.10 per share represents the minimum cost of \$617,145.20 to Suburban of acquiring Vallecito's assets in accordance with Suburban's offer reduced to a per-share basis.

The record shows that two of Suburban's officers and directors are also officers and directors of Vallecito, and that one of the conditions of the original agreement by Suburban to purchase Vallecito was that Vallecito's Board of Directors would apply to this Commission for an increase in rates for water service. This condition has been withdrawn, and an amended agreement is being submitted to Vallecito's shareholders for approval or rejection. In the meantime, Vallecito's directors have voted to apply for rate relief. Another amendment to Suburban's original agreement with Vallecito concerned the amount of the deposit by Suburban. Such amount was reduced from \$392,500 to \$10,000. This amendment is also being voted on by Vallecito's shareholders.

The Commission finds that:

1. San Gabriel Valley Water Company and Vallecito Water Company are public utility water corporations under the jurisdiction of this Commission.

2. The water systems of San Gabriel and Vallecito adjoin each other and their water system operations can be integrated.

3. Vallecito's outstanding shares of capital stock amount to 38,332, of which San Gabriel's Chairman of the Board owns 11,118 shares. He has agreed to sell such shares to San Gabriel at a price equal to his net cost but not to exceed \$12.15 per share.

4. Suburban Water Systems, a public utility water corporation, under the jurisdiction of this Commission, has offered a cash purchase price of \$785,000 (net of \$617,145.20) guaranteeing to all Vallecito shareholders at the time of closing at least \$16.10 per share.

5. The average cost of Vallecito's stock to San Gabriel would be \$14.95 per share.

6. San Gabriel is financially able to purchase Vallecito's stock.

7. San Gabriel could operate Vallecito economically if it acquired control; does not plan to file an application to increase Vallecito's present rates for water service; and is financially able to and would improve Vallecito's water system.

8. The purchase of Vallecito's stock by San Gabriel would not be adverse to the public interest.

Based on the foregoing findings the Commission concludes that the application should be granted.

O R D E R

IT IS ORDERED that:

1. San Gabriel Valley Water Company is authorized to acquire 11,118 shares of the capital stock of Vallecito Water Company from R. H. Nicholson at a price equal to his net cost but not to exceed \$12.15 per share, and to purchase from others not more than 27,214 shares of the capital stock of Vallecito Water Company at a price not to exceed \$16.10 per share.

2. The authority granted herein shall expire if not exercised before December 31, 1965.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 15th day of OCTOBER, 1963.

William W. Arnold
President
George G. Grover
Frederick B. Holdreiff

Commissioners

Commissioner George G. Grover
present but not voting.