

Decision No. 67166

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CATALINA ISLAND SIGHTSEEING LINES, a California corporation, for authority to sell the S.S. CATALINA and certain motor cruisers and to enter into agreements to lease Avalon Pier; the Application of ISLAND BOAT SERVICE, a California corporation, for authority to transfer certain operating rights and permit for Berth 186, Wilmington; the Application of CATALINA TRANSPORTATION CO., a California corporation, for authority to issue and sell stock, to sign promissory note and to enter into a bareboat charter party agreement as to the S.S. CATALINA and certain other vessels; the Application of CATALINA MOTOR CRUISERS, INC., a California corporation, for authority to issue and sell stock, to purchase certain passenger operations from ISLAND BOAT SERVICE, and to establish rates.

Application No. 46250
Filed March 2, 1964

Knapp, Gill, Hibbert & Stevens, by Wyman C. Knapp,
for applicants Catalina Island Sightseeing Lines
and Island Boat Service.

Vaughan, Brandlin, Robinson & Roemer, by James H.
Lyons, for applicants Catalina Transportation Co.
and Catalina Motor Cruisers, Inc.

W. B. von Kleinsmid, for Catalina Air Lines, Inc.,
interested party.

Henry E. Jordan, for Bureau of Franchises and Public
Utilities, City of Long Beach, interested party.

Captain Charles J. Miller, in pro. per., interested
party.

Timothy E. Treacy, for the Commission staff.

O P I N I O N

This is an application for an order of the Commission (1) authorizing Catalina Island Sightseeing Lines to sell and transfer the S.S. Catalina and three motor cruisers for \$450,000 and \$100,000, respectively, to Catalina Transportation Co., (2) authorizing Catalina Transportation Co. (a) to issue and sell \$150,000 par value of its common stock and to issue a \$400,000 note for the purpose of obtaining funds to meet the purchase prices of said vessels, and (b) to lease said steamer and cruisers to M.G.R.S., Inc. and Catalina Motor Cruisers, Inc., respectively, (3) authorizing Catalina Motor Cruisers, Inc. to issue and sell \$25,000 par value of its common stock for organization expenses and working capital, (4) authorizing Island Boat Service to transfer its operating rights between the mainland and Santa Catalina Island to Catalina Motor Cruisers, Inc., (5) releasing Catalina Island Sightseeing Lines from any obligation for it to resume operating the S.S. Catalina in the event M.G.R.S., Inc. should discontinue, or provide unsatisfactory service between Wilmington and Avalon, and (6) authorizing certain incidental transactions.

A public hearing was held before Examiner Donovan in Avalon, Santa Catalina Island, on April 27, 1964, at which time the matter was taken under submission.

M.G.R.S., Inc. and Island Boat Service are California corporations operating as public utility common carriers by vessel between the Los Angeles County mainland and Santa Catalina Island. In addition, Island Boat Service operates between points on Santa Catalina Island. Both corporations have been operating vessels leased from Catalina Island Sightseeing Lines, a California corporation presently operating as a public utility common carrier of freight by vessel.

Catalina Island Sightseeing Lines proposes to sell and transfer the S.S. Catalina and the motor cruisers Descanso, Jericho and Sportsman to Catalina Transportation Co., which, in turn, would lease said steamer and motor cruisers to M.G.R.S., Inc. and Catalina Motor Cruisers, Inc., respectively, thereby continuing M.G.R.S., Inc. as the lessee of the S.S. Catalina and replacing Island Boat Service by Catalina Motor Cruisers, Inc. as the lessee of the motor cruisers.

Catalina Transportation Co. and Catalina Motor Cruisers, Inc. are California corporations organized on or about January 9, 1964. They propose to issue and sell \$150,000 and \$25,000, respectively, par value of their common stock, at par, for cash, in order to obtain \$150,000 for meeting a portion of the \$550,000 purchase price for said vessels, and \$25,000 for organization expenses and working capital for Catalina Motor Cruisers, Inc. For the purpose of obtaining the remaining \$400,000 cash for paying the balance of said purchase price, Catalina Transportation

Co. proposes to issue an unsecured 7% note in the face amount of \$400,000 in favor of certain of its proposed shareholders, repayable in eight annual installments of \$50,000 each.

Catalina Transportation Co. proposes to lease the S.S. Catalina to M.G.R.S., Inc. for a period terminating December 31, 1965, at a base rental of \$67,500 per year, payable \$11,250 on the first day of May, June, July, August, September and October. In addition, Catalina Transportation Co. proposes to lease the motor cruisers Descanso, Jericho and Sportsman to Catalina Motor Cruisers, Inc. for a period terminating December 31, 1968, at an aggregate base rental of \$14,500 per year, payable \$3,625 on the first day of January, April, July and October.

Catalina Island Sightseeing Lines proposes to lease the Avalon Pier Terminal to M.G.R.S., Inc. for a period terminating December 31, 1973, at a base rental of \$51,550 per year, payable \$8,591.66 on the first day of May, June, July, August and September and \$8,591.70 on the first day of October each year. In addition, Catalina Island Sightseeing Lines will permit Catalina Motor Cruisers, Inc. to use terminal pier facilities through December 31, 1973, the former requiring the latter to pay to it an Avalon wharfage fee of 25 cents per paid passenger landed, discharged, loaded or embarked on said pier facilities.

By Decision No. 64776, dated January 8, 1963, in Application No. 44124, the Commission granted Island Boat Service a certificate of public convenience and necessity authorizing it to operate as a common carrier by vessel for the transportation of persons and their baggage, and newspapers, subject to certain conditions and restrictions, between the Los Angeles County mainland and Santa Catalina Island, and between points on Santa Catalina Island. The company desires authority to sell, assign and transfer over to Catalina Motor Cruisers, Inc. its operating rights for cross-channel service between the mainland and Santa Catalina Island, and to limit its operations to points on Santa Catalina Island. In connection with disposing of its cross-channel operations, Island Boat Service proposes to assign to Catalina Motor Cruisers, Inc. all of its rights to use Berth 186 as its Wilmington Terminal, which rights were granted pursuant to Revocable Permit No. 804 of the Board of Harbor Commissioners of the City of Los Angeles.

As a result of the transfer of the S.S. Catalina from Catalina Island Sightseeing Lines to Catalina Transportation Co., M.G.R.S., Inc. would become the lessee of said vessel from a corporation closely affiliated with itself through a similarity in shareholders owning in excess of 80% of the stock of both corporations. In accordance with a condition set forth in Decision No. 59710, dated February 23, 1960, in Applications Nos. 41589 and 41613, Catalina Island Sightseeing Lines agreed to re-undertake and to re-establish the operation of the

S.S. Catalina between Wilmington and Avalon in the event service by M.G.R.S., Inc. should be discontinued or proved to be unsatisfactory. The application shows that M.G.R.S., Inc. has been operating successfully, and Catalina Island Sightseeing Lines requests to be released from said contingent obligation, inasmuch as it would cease to be the owner of the S.S. Catalina.

The evidence in this proceeding shows that Catalina Transportation Co., Catalina Motor Cruisers, Inc. and M.G.R.S., Inc. will be closely related through a similarity in shareholders, and that the nature of the S.S. Catalina operation is so different from operating motor cruisers that separate corporate entities are desirable. Moreover, the existence of one corporation for owning transportation equipment and another for operating it has proven to be a sound business management practice under circumstances similar to those now under consideration especially from the standpoint of labor relations. The record shows that the sale of the S.S. Catalina will enable necessary improvements to be accomplished for the convenience, enjoyment and safety of the public, and also that the public will be better assured of continuous all-year scheduled service by the motor cruisers coordinated with the operation of the steamer.

After consideration the Commission finds that: (1) the proposed transactions would not be adverse to the public interest; (2) no change in rates charged to the public will occur as a result of any of the transactions; (3) Catalina Transportation Co. and

Catalina Motor Cruisers, Inc. are public utilities; (4) the S.S. Catalina has been dedicated to public utility use; (5) the money, property or labor to be procured or paid for by the issue of the stock and note herein authorized is reasonably required for the purposes specified herein; (6) such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; and (7) it is no longer necessary for Catalina Island Sightseeing Lines to be contingently obligated to resume operating the S.S. Catalina. On the basis of these findings we conclude that the application should be granted.

In issuing ~~our~~ order herein, we place Catalina Transportation Co., Catalina Motor Cruisers, Inc., and M.G.R.S., Inc. and their shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return they should be allowed to earn on their investment in plant and that the authorization herein given is not to be construed as a finding of value of their stock or properties nor as indicative of amounts including, but not limited to, rentals and other intercompany charges, investment or depreciation expense to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. The agreements involved in this proceeding are hereby approved in the same form, or in substantially the same form, as those attached to the application as Exhibits C, D, E, F, G, K, and M, and applicants, as their respective interests may appear, are hereby authorized to consummate the transactions therein contemplated.

2. Catalina Transportation Co., on or before December 31, 1964, for the purposes set forth in this proceeding, may issue not to exceed \$150,000 par value of its common stock, at par, for cash, and may issue its promissory note in the principal amount of not to exceed \$400,000, in the same form, or in substantially the same form, as that attached to the application as Exhibit J.

3. Catalina Motor Cruisers, Inc., on or before December 31, 1964, for the purposes set forth in this proceeding, may issue not to exceed \$25,000 par value of its common stock, at par, for cash.

4. Upon transferring ownership of the S.S. Catalina to Catalina Transportation Co., Catalina Island Sightseeing Lines is hereby released from any obligation to re-undertake or to re-establish the operation of said vessel.

5. Island Boat Service may sell, assign and transfer over to Catalina Motor Cruisers, Inc. the portion of the operating rights granted by Decision No. 64776, dated January 8, 1963, in Application No. 44124, relating to cross-channel transportation between the Los Angeles County mainland and Santa Catalina Island, subject to conditions, restrictions and privileges presently applicable thereto.

6. The public utility dedicated status of the S.S. Catalina and of the motor cruisers Descanso, Jericho and Sportsman shall continue, notwithstanding the transfer or any provision of any contract or agreement.

7. Within thirty days after the consummation of the transfers herein authorized, Catalina Transportation Co. and Catalina Motor Cruisers, Inc. shall notify the Commission, in writing, of those facts and within said period shall file with the Commission a true copy of any bill of sale or other instrument of transfer which may be executed to effect said transfers.

8. Catalina Motor Cruisers, Inc. shall amend or reissue the tariffs and timetables on file with the Commission, naming rates, rules and regulations governing the common carrier operations herein to show that it has adopted or established, as its own, said rates, rules and regulations. The tariff and timetable filings shall be made effective not earlier than ten days after the effective date of this order on not less than ten

days' notice to the Commission and the public, and the effective date of the tariff and timetable filings shall be concurrent with the consummation of the transfer herein authorized. The tariff and timetable filings made pursuant to this order shall comply in all respects with the regulations governing the construction and filing of tariffs and timetables set forth in the Commission's General Orders Nos. 87 and 117.

9. Catalina Transportation Co. and Catalina Motor Cruisers, Inc. shall file with the Commission reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

10. This order shall become effective when Catalina Transportation Co. has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$400.

Dated at San Francisco, California, this 28th day of April, 1964.

William L. Berndt
President
Charles W. Leage

Commissioners

Commissioner George G. Grover
present but not voting.

Commissioner Frederick B. Holoboff, being necessarily absent, did not participate in the disposition of this proceeding.

