

ORIGINAL

Decision No. 67375

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
INVESTMENT WATER CORPORATION, LTD.,
a Corporation; and

CALIFORNIA WATER & TELEPHONE COMPANY,
a Corporation,

for an order authorizing:

a) Investment Water Corporation, Ltd.,
to sell, and California Water &
Telephone Company to buy assets of
Investment Water Corporation, Ltd.;
and

b) Investment Water Corporation, Ltd.,
to withdraw from the water utility
business; and

c) California Water & Telephone
Company to engage in and carry on the
water utility business of Investment
Water Corporation, Ltd.; and

d) California Water & Telephone
Company to assume certain obligations
of Investment Water Corporation, Ltd.,
as a part of the purchase price of
assets of Investment Water Corporation,
Ltd.; and

e) California Water & Telephone
Company to issue and deliver to
Investment Water Corporation, Ltd.,
25,000 shares of the \$6.25 par value
common stock of California Water &
Telephone Company as a part of the
purchase price of assets of Investment
Water Corporation, Ltd.; and

f) California Water & Telephone
Company to issue and deliver to Los
Angeles Investment Company 850 shares
of the \$6.25 par value common stock of
California Water & Telephone Company,
in cancellation of indebtedness and as
part of the purchase price of assets of
Investment Water Corporation, Ltd.

Application No. 46535
Filed April 15, 1964

O P I N I O N

This is an application for an order of the Commission (1) authorizing Investment Water Corporation, Ltd. to sell and transfer its utility plant and certain other assets and to withdraw from the water utility business; (2) authorizing California Water & Telephone Company to acquire said assets and to continue the water utility business of Investment Water Corporation, Ltd.; and (3) authorizing California Water & Telephone Company, in acquiring such assets, to assume certain obligations, to cancel indebtedness and to issue common stock.

Investment Water Corporation, Ltd., a California corporation, is a public utility engaged in the business of providing water service to consumers located in the Baldwin Hills area of Los Angeles County. Exhibit B attached to the application shows that as of December 31, 1963, its net assets after deduction of the depreciation reserve amounted to \$1,481,339.03; that outstanding liabilities of \$721,049.27 included a balance of \$77,410.05 related to advances for construction; and that common stock equity and contributions in aid of construction were \$743,897.26 and \$16,392.50, respectively. For the year 1963 the company reports operating revenues of \$370,304.69, net income of \$39,946.29, and year-end active service connections totaling 5,768.

California Water & Telephone Company, a California corporation, is a public utility engaged in rendering telephone service in portions of southern California and providing water service in parts of Monterey, San Diego and Los Angeles Counties. In this proceeding, it proposes to purchase all of the assets

of Investment Water Corporation, Ltd., including those represented by and arising out of consumers' advances and deposits, but excluding cash and accounts receivable. As part of the purchase price, California Water & Telephone Company proposes to assume a \$600,000 indebtedness in favor of Security First National Bank and to assume the transferor's obligation and liability to refund consumers' advances and deposits as such refunds may become due. The purchaser proposes to issue 25,000 shares of its \$6.25 par value common stock in exchange for the aforementioned assets, subject to assuming the liabilities. In addition, it proposes to issue 850 shares of such stock to Los Angeles Investment Company, the sole shareholder of Investment Water Corporation, Ltd., in cancellation of the liability of the seller to its parent for \$70,000 advanced for construction purposes. As of April 6, 1964, the market value of California Water & Telephone Company's common stock was approximately \$32 per share, which would approximate \$827,200 for the proposed 25,850 shares.

Exhibit D-1 attached to the application is a copy of an amendment to the purchase agreement, which amendment contemplates that the market price of California Water & Telephone Company's common stock would decline considerably if such company's proposed merger into General Telephone & Electronics Corporation should fail to materialize. The parties have agreed that in such event the purchaser would issue 30,000 (instead of 25,000) shares of its common stock for the same properties and

1,000 (instead of 850) shares of such stock in cancellation of the liability represented by the \$70,000 main extension contract.

The proposal to terminate the \$70,000 main extension contract deviates from the Commission's presently effective water main extension rule; however, the anticipated termination at approximately 40% of face value appears to be a valid reason for deviating from such rule under the circumstances prevailing in this particular proceeding.

In recording the acquisition from Investment Water Corporation, Ltd., California Water & Telephone Company proposes to utilize the book balances of the transferor, except for eliminating the amount credited to the contributions in aid of construction account. The order which follows will require California Water & Telephone Company to charge its capital surplus account with any acquisition adjustment debit which may result from the transaction, and to include on its books the balance in the contributions in aid of construction account as shown on the books of Investment Water Corporation, Ltd. The purchaser will be required also to transfer to contributions in aid of construction the amount of the discount which it realizes upon termination of the main extension contract involving Los Angeles Investment Company.

The application shows that the proposed transfer would be mutually advantageous to the public and to the parties by achieving improvements in management and economies particularly

in the maintenance, commercial and accounting aspects of the operations.

The Commission has considered this matter and finds that: (1) there will be no change in rates as a result of the transfer; (2) the sale and transfer to California Water & Telephone Company of the water utility business and related assets of Investment Water Corporation, Ltd. will not be adverse to the public interest; (3) deviation from the water main extension rule in connection with the termination of the main extension contract involving Los Angeles Investment Company is reasonable under the circumstances; (4) the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required for the purposes specified herein; and (5) such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings we conclude that the application should be granted. A public hearing is not necessary.

In issuing our order herein, we place California Water & Telephone Company and its 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 it should be allowed to earn on its investment in plant and that the authorization herein given is not to be construed as a finding of value of its stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. Investment Water Corporation, Ltd. may sell and transfer to California Water & Telephone Company its public utility water business, together with the related assets referred to in the application.

2. California Water & Telephone Company may purchase and acquire said public utility water business and related assets and, in connection therewith, may assume the outstanding liabilities and terminate the \$70,000 main extension contract referred to in the application, and may issue not to exceed 25,850 shares of its \$6.25 par value common stock in part payment for said business and assets and termination of said contract. In the event that the anticipated merger of California Water & Telephone Company into General Telephone & Electronics Corporation should not materialize, California Water & Telephone Company may issue not to exceed 31,000 (instead of 25,850) shares of said stock for the same purposes.

3. California Water & Telephone Company may deviate from the prescribed water main extension rule for the purpose of terminating the \$70,000 contract involving Los Angeles Investment Company in the manner set forth in this proceeding.

4. California Water & Telephone Company shall account for the acquisition of the properties herein authorized to be transferred in accordance with (a) the requirements of Plant Instruction 4 of the Uniform System of Accounts for Water Utilities (Class A, Class B and Class C), and (b) the comments in the foregoing opinion. Within sixty days after the consummation of the transfer, it shall file with the Commission a copy of each journal entry used to record the transfer on its books of account.

5. 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 hereby made a part of this order.

6. On or before the date of actual transfer, Investment Water Corporation, Ltd. shall refund all deposits, if any, which customers are entitled to have refunded. Any unrefunded deposits shall be transferred to and shall become the obligation for refund of California Water & Telephone Company.

7. On or before the date of actual transfer, Investment Water Corporation, Ltd. shall transfer all advances for construction (except the advance represented by the contract herein authorized to be terminated) held by it to California Water & Telephone Company and the latter shall assume the obligation for repayment of such advances. Applicants, within fifteen days after the date

of transfer, shall jointly file with this Commission a certified copy of an appropriate instrument showing the names of all persons or corporations in whose favor such obligations exist and the amounts thereof.

8. On or before the date of actual transfer, Investment Water Corporation, Ltd. shall transfer and deliver to California Water & Telephone Company all records, memoranda and papers pertaining to the construction and operation of the properties herein authorized to be transferred and the latter shall receive and preserve such records, memoranda and papers.

9. If the authority herein granted to transfer properties is exercised, California Water & Telephone Company, within thirty days thereafter, shall notify the Commission, in writing, of the date of completion of such transfer.

10. California Water & Telephone Company shall file, within five days after the effective date of the transfer, a notice of adoption of the presently filed tariff schedules of Investment Water Corporation, Ltd.

11. The rates and rules of Investment Water Corporation, Ltd. now on file with the Commission shall be refiled within thirty days after the effective date of the transfer, under the name of California Water & Telephone Company, in accordance with the requirements of General Order No. 96-A, except that California

Water & Telephone Company may withdraw such of the rules and standard forms of Investment Water Corporation, Ltd. as are substantially identical with California Water & Telephone Company's rules and standard forms, and withdrawal of which will not result in increases or more restrictive conditions in the presently filed tariff schedules of Investment Water Corporation, Ltd.

12. On or before the end of the third month after the consummation of the transfer as herein authorized, California Water & Telephone Company shall cause to be filed with the Commission, in such form as it may prescribe, an annual report, or reports, of Investment Water Corporation, Ltd. covering the period commencing with the first day of the current year to and including the effective date of the transfer.

13. Upon compliance with the terms and conditions of the transfer, Investment Water Corporation, Ltd. shall stand relieved of all further public utility obligations in connection with the operations of the public utility water system herein authorized to be transferred and, effective upon consummation of said transfer, it is hereby declared to be a nonutility company exempt from the jurisdiction of this Commission.

14. The effective date of this order is the date hereof. Any authority herein granted and not exercised will expire on December 31, 1964.

Dated at San Francisco, California, this 16th day of JUNE, 1964.

Evelyn A. ... President

George J. ...

Fredrick B. Hallock

 Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.