

ORIGINAL

Decision No. 68242

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
 (1) CALIFORNIA CITIES WATER COMPANY)
 for authority (a) to merge with)
 Clinton County Water Company, San)
 Dimas Water Company, San Dimas-)
 Charter Oak Domestic Water Company)
 and The Columbia Land and Water)
 Company; and (b) to issue the shares)
 of common stock required to give)
 effect to such merger; and)
)
 (2) SAN DIMAS-CHARTER OAK DOMESTIC)
 WATER COMPANY to merge with and into)
 California Cities Water Company.)
 _____)

Application No. 47080
Filed October 30, 1964

O P I N I O N

This application involves the proposed merger of Clinton County Water Company, San Dimas Water Company, San Dimas-Charter Oak Domestic Water Company and The Columbia Land and Water Company with and into California Cities Water Company, together with a \$909,800 par value proposed stock issue by the latter.

California Cities Water Company, which would become the surviving corporation under the proposed merger, is a California corporation organized on or about September 4, 1964. On November 10, 1964, the Commission by Decision No. 68187 in Application No. 47050, authorized it to issue and sell 100 shares of its common stock, without par value, to Clinton County Water Company, such stock to be eliminated upon consummation of the merger. Upon issuing such stock the former would become a wholly-owned subsidiary of the latter, which, in turn, is a wholly-owned subsidiary of Consolidated Water Company, the parent company of

California Consolidated Water Company, Inc., a public utility water corporation operating under the jurisdiction of this Commission in the Santa Maria area of Santa Barbara County. San Dimas-Charter Oak Domestic Water Company is a wholly-owned subsidiary of San Dimas Water Company, an alleged mutual water corporation. The Columbia Land and Water Company also is alleged to be a mutual water corporation.

The only one of the five corporations proposed to be merged which operates subject to this Commission's jurisdiction at the present time is San Dimas-Charter Oak Domestic Water Company, which provides public utility water service in and about the City of San Dimas, Los Angeles County. The application shows that San Dimas Water Company, the sole shareholder of San Dimas-Charter Oak Domestic Water Company, provides virtually all of the latter's water supply. San Dimas Water Company, according to the application, obtains a portion of its water supply from The Columbia Land and Water Company through an agreement under which the former leases the plant facilities of the latter.

In order that a simplification of corporate structure may be accomplished, and that there may be a common ownership of properties and assets, California Cities Water Company proposes that Clinton County Water Company, San Dimas Water Company, San Dimas-Charter Oak Domestic Water Company and The Columbia Land and Water Company be merged with and into it. All obligations of the constituent corporations will be assumed by the surviving corporation.

A pro forma balance sheet of California Cities Water Company, as of August 31, 1964, after giving effect to the proposed merger, as summarized from Schedule 1 of Exhibit 3 attached to the application, is as follows:

Assets

Net property	\$3,926,930.78
Investment in associated company	164,780.65
Current and accrued assets	364,408.32
Deferred debits	<u>43,359.06</u>
 Total	 <u>\$4,499,478.81</u>

Liabilities

Common stock	\$ 909,800.00
Capital surplus	755,795.39
Earned surplus	828,859.26
Long-term debt	470,000.00
 Current and accrued liabilities	 569,480.49
Advances for construction	836,914.16
Other deferred credits	101,404.50
Contributions in aid of construction	<u>27,225.01</u>
 Total	 <u>\$4,499,478.81</u>

The Agreement of Merger contemplates the issue of 90,980 shares of \$10 par value common stock by California Cities Water Company. Such corporation will not issue certificates for fractional shares but in lieu thereof, it will pay in cash the fair market value, as determined by its Board of Directors, of any fractional share interests.

Exhibit 3 attached to the application sets forth in some detail the journal entries California Cities Water Company, as the surviving corporation, proposes to use to record the merger.

It requests, upon consummation of the merger, authorization to record these journal entries upon its books and records. Sufficient information is not yet available to this Commission to permit verification of the accuracy or propriety of such journal entries or their bases, particularly with respect to recent inventories and appraisals of certain of the properties involved in the merger. For this reason the Commission, at this time, will withhold approval of the proposed journal entries pending a final determination as to the accuracy and reasonableness of the amounts involved. It is clear, however, that sufficient property values exist to support the proposed stock issue and that action on the proposed merger need not be delayed. We will not prohibit the surviving corporation from utilizing the proposed journal entries for the purpose of reflecting the effect of the merger, with the understanding that the Commission reserves the right to require modification of such journal entries following their review and verification by the Commission staff.

The Commission has considered this matter and finds that: (1) the proposed merger would not be adverse to the public interest; (2) 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; (3) such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income; and (4) action on California Cities Water Company's request for authority to record certain journal entries should be reserved pending determination by the Commission as to the reasonableness of the amounts involved. On the basis of these

findings we conclude that the application, insofar as it relates to the merger and to the issue of shares of capital stock, should be granted. A public hearing is not necessary.

In issuing our order herein, we place California Cities Water Company 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 the company 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 the company's 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. Clinton County Water Company, San Dimas Water Company, San Dimas-Charter Oak Domestic Water Company and The Columbia Land and Water Company may merge with and into California Cities Water Company, as the surviving corporation, in accordance with an Agreement of Merger in the same form, or in substantially the same form, as Exhibit 2 attached to the application. Said merger may be consummated as of August 31, 1964 for accounting purposes.

2. California Cities Water Company may assume outstanding indebtedness and may issue and deliver not to exceed \$909,800 par value of its common stock for the purpose of consummating said merger.

3. California Cities Water Company, as the surviving corporation under the merger, may enter into and engage in the public utility water business in the territory now served by San Dimas-Charter Oak Domestic Water Company. On and after consummation of such merger, all sales of water in California conducted by any of the merging corporations immediately prior thereto shall constitute sales by a public utility subject to the jurisdiction of this Commission.

4. California Cities Water Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

5. If the authority herein granted to merge is exercised, California Cities Water Company, within thirty days thereafter, shall notify the Commission, in writing, of the date of completion of such merger.

6. California Cities Water Company shall file, within five days after the effective date of the merger, a notice of adoption of the presently filed tariff schedule of San Dimas-Charter Oak Domestic Water Company.

7. On or before the end of the third month after the consummation of the merger as herein authorized, California Cities Water Company shall cause to be filed with the Commission in such form as it may prescribe an annual report, or reports, of San Dimas-Charter Oak Domestic Water Company covering the period commencing with the first day of the current year to and including the effective date for accounting purposes of the merger.

8. The effective date of this order is the date hereof. Any authority herein granted and not exercised will expire on March 31, 1965.

Dated at San Francisco, California, this 24th day of November, 1964.

Fredrick B. Holcomb
President
George T. Hoover
William L. Bennett
Commissioners