

ORIGINAL

Decision No. 68333

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matters of the Joint)
 Application of SOUTHWEST WATER)
 COMPANY, a California corporation,)
 and LA MIRADA WATER CO., a)
 California corporation, for)
 authority to implement a contract)
 wherein the latter sells and the)
 former buys all of the water)
 system assets of La Mirada Water)
 Co., for authority to permit)
 Southwest Water Company to render)
 water service in the territory)
 served by La Mirada Water Co.,)
 and for further authority to)
 permit Southwest Water Company)
 to issue a promissory note to)
 La Mirada Water Co. in connection)
 with said acquisition.)

Application No. 46832
 Filed July 22, 1964

Arthur D. Guy, Jr., Walker Hannon and C. H. Deitz,
 for Southwest Water Company, applicant;
John Moore Robinson, for La Mirada Water Co.,
 applicant;
R. R. Entwistle, for San Gabriel Valley Water
 Company, interested party; and
Raymond E. Heytens and Sidney J. Webb, for the
 Commission staff.

O P I N I O N

This is an application for an order of the Commission
 (1) authorizing La Mirada Water Co. to sell and transfer its
 water system assets to Southwest Water Company, (2) authorizing
 Southwest Water Company, in acquiring said assets, to issue a
 note in the principal amount of not to exceed \$330,000 and to
 assume obligations represented by advances for construction,

customers' deposits, and a lease relating to the La Mirada Shopping Center, and (3) authorizing certain incidental transactions.

A public hearing was held before Examiner Donovan in Los Angeles on September 25, 1964, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicants are engaged in the operation of adjoining public utility water systems in and about the City of La Mirada. In addition, Southwest Water Company operates in other areas including the La Sierra service area which was annexed recently to the City of Riverside. The application shows that the approximate number of customers served consists of 3,450 by La Mirada Water Co., and 13,500 by Southwest Water Company of which 8,100 are located in and adjacent to the City of La Mirada.

By Decision No. 49169, dated September 29, 1953, in Application No. 34580, the Commission granted La Mirada Water Co. a certificate of public convenience and necessity to construct and operate a public utility water system. Such certificate was revised by Decision No. 51192, dated March 15, 1955, in Application No. 36678, by excluding the area encompassed by a certificate of public convenience and necessity granted to Southwest Water Company concurrently with such exclusion. Pursuant to authority granted by Decision No. 52282, dated November 29, 1955, in Application No. 37143, La Mirada Water

Co. acquired from John Moore Robinson and S. I. Robinson a certificate of public convenience and necessity relating to the latter's service area of relatively small dimensions, which was surrounded completely by the former's service area, of much greater dimensions. The present proceeding involves the acquisition of the certificates of public convenience and necessity together with the related water system of La Mirada Water Co., by Southwest Water Company.

According to the Purchase Agreement, a copy of which is attached to the application, together with oral testimony and the May 31, 1964 balance sheet of La Mirada Water Co., the terms of purchase for the proposed acquisition by Southwest Water Company would be based upon book values, subject to subsequent changes in the ordinary course of business up to the time of closing, as follows:

Utility plant		\$1,429,532
Less deductions:		
Reserve for depreciation	\$332,120	
Advances for construction - to be assumed by transferee	505,885	
Customers' deposits - to be assumed by transferee	13,346	
Contributions in aid of construction	<u>4,330</u>	
Total deductions		<u>855,681</u>
Balance		<u>\$ 573,851</u>

Payment of the \$573,851 balance, subject to changes before closing, would occur in the following manner:

Deposit advanced previously by transferee	\$ 5,000
Money advanced by transferee in accordance with Dec. No. 67447, dated 6/29/64, in Application No. 46742	263,000
Note repayable in two years, at an interest rate of 6% per annum, payable quarterly (not to exceed \$330,000 in any event)	<u>305,851</u>
Total	<u>\$573,851</u>

Southwest Water Company proposes to repay prior to its due date the note in the amount of not to exceed \$330,000. The company expects to obtain funds for such repayment out of a portion of the proceeds to be derived from the anticipated acquisition of its La Sierra system by the City of Riverside. Regarding the timing of negotiations with the City of Riverside, Exhibit 3 contains a copy of a letter dated September 23, 1964, signed by its Public Utilities Director and reading, in part, as follows:

"It is anticipated that a revenue bond election will be held in June 1965 to provide funds for acquiring the electric system in the Arlanza and La Sierra areas. Therefore, we are desirous of concluding negotiations with Southwest around April 1, 1965 so that we might also incorporate, if necessary, a water revenue bond election on the same ballot. Following a successful bond election in June, we would expect to have funds to build necessary connecting facilities and to conclude acquisition of the Southwest system by late summer or early fall of 1965."

Exhibit 4 consists of a copy of a letter relating to the proposed acquisition of the water system of La Mirada Water Co. by Southwest Water Company. The letter is dated July 9, 1964, is signed by the City Administrator of the City of La Mirada and states, in part, the following:

"As indicated in a previous letter, I believe the unification of these two companies will provide a more consistent and equitable service level to the community, standardize the rate structure and provide a more consistent and higher level of both quality and quantity of water distribution. The foregoing should be realized if your company's plans to upgrade the present La Mirada Water Company system are accomplished."

Exhibit 8 consists of a memorandum financial report relating to this proceeding and was prepared by a staff member of the Commission's Finance and Accounts Division. The report contains a recommendation that the requested authorization be denied because of the continued deterioration of Southwest Water Company's equity capital position which has resulted in a debt ratio of 73.9%, including advances for construction as an item of debt. It is the staff's opinion that a capital structure with such a high proportion of debt could cause Southwest Water Company to encounter difficulties in meeting its fixed charges and could result in increased financing costs in the future.

While it is true that Southwest Water Company has relied almost exclusively on debt to finance its expansion, the record in this proceeding shows that there will be an increase of cash flow as the result of acquiring the La Mirada Water Co. system. On a pro forma basis, the estimated available cash after meeting all fixed charge requirements, including \$32,380 for dividends on Southwest Water Company's common stock, would amount to \$26,638 from such company's current operations and would increase to \$71,485 for the combined operations, since the La Mirada Water Co. system would generate

\$44,847 of cash flow. These estimates do not take into consideration funds which Southwest Water Company would derive if the contemplated sale of its La Sierra water system to the City of Riverside is consummated. In addition, the record contains evidence that La Mirada Water Co. has encountered certain service problems relating to the quality of water and to pressure. If the two systems are combined, it appears that these service problems can be substantially eliminated, since Southwest Water Company has an ample source of supply of water from The Metropolitan Water District of Southern California, and has reservoir facilities which will overcome existing pressure problems in the La Mirada Water Co. system if the two systems are interconnected.

The Commission has considered this matter and finds that: (1) the proposed sale and transfer of the water system operations and assets of La Mirada Water Co. to Southwest Water Company 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 note herein authorized is reasonably required for the purpose specified herein; and (3) such purpose is 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, provided, however, that no authority will be granted in this proceeding for Southwest Water Company to exercise any right or privilege under a franchise for which a certificate of public convenience and

necessity is required by Section 1002 of the Public Utilities Code and has not been granted previously.

The action taken herein shall not be construed to be a finding of the value of the properties herein authorized to be transferred, 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. La Mirada Water Co. may sell and transfer, and Southwest Water Company may purchase and acquire, the certificates of public convenience and necessity, together with the water system operations and assets referred to in this proceeding, on the terms and conditions set forth in the Purchase Agreement, a copy of which is attached to the application as Exhibit A.

2. Southwest Water Company may assume that certain lease relating to water service facilities owned by a shopping center popularly known as La Mirada Shopping Center, which lease is referred to in said Purchase Agreement. The company may not acquire any of said facilities without first receiving authority to do so from this Commission.

3. Southwest Water Company, for the purpose set forth in this proceeding, may issue a note in the principal amount of not to exceed \$330,000 repayable in not to exceed two years after its date and bearing interest at the rate of not to exceed 6% per annum.

4. Within thirty days after issuing the note herein authorized, Southwest Water Company shall file with the Commission a copy thereof as actually issued.

5. Southwest Water Company shall account for the acquisition of the properties herein authorized to be transferred, in accordance with the requirements of Plant Instruction 4 of the Uniform System of Accounts for Water Utilities (Class A, Class B and Class C), and 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.

6. On or before the date of actual transfer, La Mirada Water Co. shall refund all deposits, if any, which customers are then entitled to have refunded. Any unrefunded deposits shall be transferred to and shall become the obligation for refund of Southwest Water Company.

7. On or before the date of actual transfer, La Mirada Water Co. shall transfer all advances for construction held by it to Southwest Water Company and the latter shall assume the obligation for repayment of such advances. Applicants, within fifteen days after the date of transfer,

shall file jointly 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, La Mirada Water Co. shall transfer and deliver to Southwest Water 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, Southwest Water Company, within thirty days thereafter, shall notify the Commission, in writing, of the date of completion of such transfer.

10. Southwest Water Company shall file, within five days after the effective date of the transfer, a notice of adoption of the presently filed tariff schedules of La Mirada Water Co.

11. The rates and rules of La Mirada Water Co. now on file with the Commission shall be refiled within thirty days after the effective date of the transfer under the name of Southwest Water Company, in accordance with the requirements of General Order No. 96-A, except that Southwest Water Company may withdraw such rules and standard forms of La Mirada Water Co. as are substantially identical with the rules and standard forms of Southwest Water Company, and withdrawal of which will

not result in increases or more restrictive conditions in the presently filed tariff schedules of La Mirada Water Co.

12. On or before the end of the third month after the consummation of the transfer as herein authorized, Southwest Water Company shall cause to be filed with the Commission, in such form as it may prescribe, an annual report of La Mirada Water Co. 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, La Mirada Water Co. 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. This order shall become effective when Southwest Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$330.

15. Any authority herein granted and not exercised will expire on June 30, 1965.

Dated at San Francisco, California, this 15th day of December, 1964.

Frederick B. Holdstock
President
John E. Dwyer
Robert W. Long
George L. Traver
William W. Bennett
Commissioners

