

ORIGINAL

Decision 83 12 056 DEC 20 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of PADUA HILLS WATER SERVICE, INC.,)
and SOUTHERN CALIFORNIA WATER)
COMPANY for an order or orders)
(a) authorizing the sale of certain)
assets of Padua Hills Water)
Service, Inc. to Southern)
California Water Company;)
(b) authorizing Southern California)
Water Company to render water)
service to the public in the area)
served by Padua Hills Water)
Service, Inc. at rates of Padua)
Hills Water Service, Inc. presently)
in effect and authorizing Padua)
Hills Water Service, Inc. to)
discontinue rendering water service)
in such area and relieving Padua)
Hills Water Service, Inc. of)
further utility obligations; and)
(c) authorizing Southern California)
Water Company to issue shares of)
its Common Stock in an amount)
determined by dividing \$400,000 by)
the book value per share of)
Southern California Water Company's)
Common Stock on the last day of the)
month preceding the Closing Date.)

Application 83-07-12
(Filed July 6, 1983)

O P I N I O N

Padua Hills Water Service, Inc. (Seller) and Southern California Water Company (Buyer) jointly apply to the Commission for orders authorizing: the sale of certain assets; Buyer to render water service in Seller's service area at the rates and charges currently in effect; Seller to discontinue rendering water service

in the area sought to be served by Buyer and relieving Seller of further public utility obligations in that area; and Buyer to issue shares of its common stock to be transferred to Seller's nominees as consideration for the purchase and sale.

Applicant's financial statements are attached to the application as Exhibits B and F. In the 12 months ended May 31, 1983, Buyer generated total operating revenues of \$48,278,516 and a net income of \$4,657,792. Seller, for the year ended December 31, 1982, generated total operating revenues of \$32,923 and incurred a net loss of \$24,736.

Applicants' balance sheets which are also part of Exhibits B and F attached to the application are summarized as follows:

	Southern California Water Company <u>May 31, 1983</u>	Padua Hills Water Service, Inc. <u>December 31, 1982</u>
<u>Assets</u>		
Net Utility Plant	\$ 35,537,000	\$309,565
Non-Water Utility Property	-	25,506
Investments	575,000	31,912
Current Assets	10,846,000	2,448
Deferred Charges	<u>780,000</u>	<u>-</u>
Total	\$ 47,738,000	\$369,431
<u>Liabilities and Equity</u>		
Common Equity	\$ 31,667,000	\$131,646
Preferred Stock	11,190,000	-
Long-Term Debt	43,133,000	-
Current Liabilities	19,754,000	237,785
Other Credits	<u>41,994,000</u>	<u>-</u>
Total	\$ 47,738,000	\$369,431

Applicants have entered into an agreement for the purchase and sale of assets dated May 3, 1983 pursuant to which Buyer proposes to purchase the water system operated by Seller in the City of Claremont and adjacent areas in Los Angeles County and in the City of Upland in San Bernardino County. The property to be acquired consists of all of the properties owned by Seller in or necessary for the operation of the described water system except cash and accounts receivable of Seller on the closing date and 310

shares of West End Consolidated Land Company which are owned by Seller. Seller's articles of incorporation, the past and the pro forma financial statements of Buyer and Seller, and the agreement of sale together with forms of instruments of conveyance and transfer are appended to the application. Seller's certificate of public convenience and necessity was acquired in Decision (D.) 58643 dated February 24, 1965.

The agreement of sale provides that the purchase price of the water system shall consist of shares of the common stock of Southern California Water Company in an amount determined by dividing \$400,000 by the book value per share of Buyer's common stock on the last day of the month preceding the closing date, which shares of common stock of Buyer will be issued in a private offering and will not be registered under the Securities Act of 1933. Buyer proposes to charge (or credit) to Account 100.5 (Utilities Plant Acquisition Adjustment) the difference, if any, between the net cost to Buyer and the book value of the property acquired.

Buyer's pro forma balance sheet at December 31, 1982, attached to the application as Exhibit G, sets forth the proposed acquisition of Seller's assets. Exhibit G is summarized as follows:

	<u>Southern California Water Co.</u>	<u>Padua Hills Water Co.</u>	<u>Total</u>
	(In Thousands)		
<u>Assets</u>			
Net Utility Plant	\$132,244.0	\$ 368.1	\$132,612.1
Other Investments	576.0	31.9	607.9
Current Assets	9,514.0	-	9,514.0
Deferred Charges	<u>941.0</u>	<u>-</u>	<u>941.0</u>
Total	\$143,275.0	\$ 400.0	\$143,675.0
<u>Liabilities and Equity</u>			
Common Equity	\$ 32,446.0	\$ 400.0	\$ 32,846.0
Preferred Stocks	11,340.0	-	11,340.0
Long-Term Debt	43,464.0	-	43,464.0
Current Liabilities	15,690.0	-	15,690.0
Other Credits	<u>40,335.0</u>	<u>-</u>	<u>40,335.0</u>
Total	\$143,275.0	\$ 400.0	\$143,675.0

Buyer, on December 31, 1982, had issued and outstanding 2,007,226 shares of its \$5 par value common stock. The book value of this stock was \$16.17 per share. Based on this book value and the proposed purchase price of \$400,000, Buyer will issue about 25,000 shares of its common stock to Seller.^{1/}

^{1/} Barron's National Business and Financial Weekly for September 19, 1983 reported that on September 16, 1983 Buyer's common stock was quoted in the over the counter securities market at a bid price of \$15-1/8.

Buyer intends to integrate the purchased water system with its Pomona Valley System and to operate the combination as a unit. It is alleged that this will improve the reliability of service to the present customers of Seller by making available numerous additional water supply sources including imported water from the Metropolitan Water District. Applicants further state that the transfer will also make available to Buyer's existing customers an additional 2,000,000 gallons of storage and approximately 550 gallons per minute of additional water supply coming from the stock ownership being acquired in the West End Consolidated Water Company. Buyer intends to use its existing personnel to service the present customers of Buyer if the application is approved by the Commission. Applicants believe that no rate increase is involved in the application.

This application appeared on the Commission's Daily Calendar and a copy was mailed to the County of Los Angeles Local Agency Formation Commission. No protests or requests for hearing have been received.

In order that the benefits of this transfer and sale may be realized at an early date, this order should be effective immediately. The net book value of the purchased system should be reflected in the Buyer's rate base account when the transfer takes place.

Findings of Fact

1. Applicants are public utility corporations operating under the jurisdiction of this Commission.

2. The proposed sale and transfer is not adverse to the public interest.

3. The proposed issuance of shares of Southern California Water Company is for a proper purpose and not adverse to the public interest.

4. It is proper to reflect only the net book value of the purchased water system on the Buyer's rate base account when the transfer takes place.

5. A public hearing is not required.

6. This authorization is not a finding of the value of the rights and properties to be transferred.

7. The numbers of shares outstanding, the total par value of the shares, and the dividends paid do not determine allowable return on plant investment. This authorization is not a finding of the value of the utility's stock or property, nor does it indicate the amounts to be included in ratesetting proceedings, which amounts shall not exceed the net book value of the property acquired. ✓

Conclusion of Law

The application should be granted as set forth in the following order.

O R D E R

IT IS ORDERED that:

1. The transfer and sale of the water system of Padua Hills Water Service, Inc. (Seller) to Southern California Water Company (Buyer) as provided for in the agreement of sale attached to the application is approved.
2. Buyer shall render water service to the public in the territory served by Seller by integrating the water system with its Pomona Valley System at the rates of Seller presently in effect, pursuant to and subject to the rules and regulations of Buyer.
3. Buyer shall issue shares of its common stock in an amount determined by dividing \$400,000 by the book value per share of Buyer's common stock on the last day of the month preceding the closing date and transfer said shares in accordance with the agreement of sale.
4. Before the transfer occurs, Seller shall deliver to Buyer, and Buyer shall keep, all records of the construction and operation of the water system.
5. Within 90 days after actual transfer, Buyer shall file, in proper form, an annual report on Seller's operations from the first day of the current year through the date of transfer.

6. Within 10 days after the transfer and sale, Buyer shall notify the Commission, in writing, of the date of the transfer and of the date upon which it shall have assumed operation of the water system being transferred. A true copy of the instruments of transfer shall be attached to the notification.

7. Buyer shall only reflect the net book value of the purchased water system in its rate base account.

8. Upon compliance with all of the terms and conditions of this order, Seller shall be relieved of its public utility obligations in connection with the water system transferred, and Buyer shall have assumed all of the said public utility obligations.

This order is effective today.

Dated DEC 20 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President

VICTOR CALVO

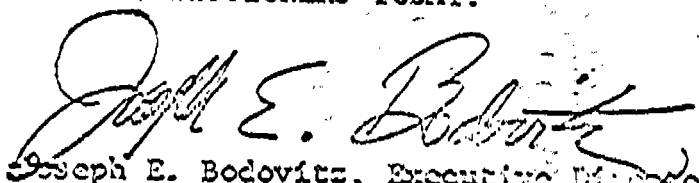
PRISCILLA C. GREW

DONALD VIAL

WILLIAM T. BAGLEY

Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Joseph E. Bodovitz, Executive Director

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