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Decision No. \_\_\_\_\_

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of )  
UTILITY INVESTMENT COMPANY for an order )  
authorizing it to acquire all of the )  
outstanding Common Capital Stock of )  
SAN GABRIEL VALLEY WATER COMPANY. )

Application No. 57859  
(Filed February 8, 1978)

O P I N I O N

In this application, Utility Investment Company (Utility Investment) seeks authority to acquire all of the outstanding common stock of San Gabriel Valley Water Company (San Gabriel).

San Gabriel is a public utility operating a water system serving approximately 60,000 customers located in Los Angeles and San Bernardino Counties. As of November 30, 1977, the company had outstanding 240,000 shares of \$10 par value common stock, the book value of which amounted to \$10,204,802.

Utility Investment, a wholly owned subsidiary of San Gabriel, is a California corporation formed in August 1963 for the purpose of investing in land. As of November 30, 1977, the corporation's assets totalled \$11,374, most of which represented land investment, and its outstanding capital stock consisted of 1,500 common shares having a par value of \$10 per share.

The application indicates that San Gabriel owns in excess of 40 parcels of land which are nonoperative and which will not be used in future utility operations. Some of the parcels were acquired with other assets of water companies purchased by San Gabriel, some are old well sites, and others were purchased as investments. The parcels are not includable in rate base and do not qualify as bondable additions for financing purposes under San Gabriel's bond indenture. Moreover, the expenses associated with the land are nonutility expenses.

The Operations Division of the Commission conducted a field investigation of eight large parcels which were found to be vacant. A more thorough review of San Gabriel's plant is contemplated by the Operations Division in connection with a general rate increase application to be filed in June 1978. For purposes of this proceeding, the Operations Division recommends that parcels proposed to be transferred be considered nonoperative. According to Section 851 of the Public Utilities Code, Commission authority is not necessary for the sale of property not necessary or useful in the performance of a utility's duties to the public.

San Gabriel has concluded that its customers and shareholders would derive mutual benefits by transferring the nonoperative properties to Utility Investment as contributed capital so that they could be separately managed, developed or sold. According to the application, separation of the real property activities from the public utility operation would insulate each business from problems and risks associated with the other, and would allow each to pursue its respective objectives, including arrangements for future debt or equity financing on a basis consistent with the industry in which it operates.

To achieve this goal, nonutility land in the amount of \$184,980 would be transferred from San Gabriel to Utility Investment, and the latter would become the parent corporation of San Gabriel by the following procedure:

1. San Gabriel's common stockholders would surrender their shares in exchange for an identical number of Utility Investment's common shares.
2. Upon the exchange of certificates by 100% in interest of San Gabriel's common shareholders, San Gabriel would deliver to Utility Investment 15,000 shares of Utility Investment's common stock.
3. Upon conclusion of the transaction each former shareholder of San Gabriel would own that percentage of Utility Investment which he or she formerly owned of San Gabriel.

The consummation of the contemplated transaction would not result in any change in the management or operations of San Gabriel and the respective percentage interests of San Gabriel's present shareholders would remain unchanged.

The effect of the transaction on San Gabriel's balance sheet as of November 30, 1977 is as follows:

<u>Assets</u>	<u>Recorded</u>	<u>Adjustments</u>	<u>Pro Forma</u>
Net utility plant	\$23,374,817	\$	\$23,374,817
Investments	209,132	(203,275) <sup>a/</sup>	5,857
Current and other assets	7,867,794		7,867,794
<b>Total</b>	<b><u>\$31,451,743</u></b>		<b><u>\$31,248,468</u></b>
 <u>Liabilities</u>			
Long-term debt	\$ 9,472,500		\$ 9,472,500
Preferred stock	962,500		962,500
Common equity	10,204,802	(203,275) <sup>a/</sup>	10,001,527
Current liabilities	1,928,684		1,928,684
Advances for construction	2,565,512		2,565,512
Contributions in aid of construction	3,806,195		3,806,195
Other credits	2,511,550		2,511,550
<b>Total</b>	<b><u>\$31,451,743</u></b>		<b><u>\$31,248,468</u></b>

<sup>a/</sup> Consists of contributed land, \$184,980, transfer of Utility Investment stock totalling \$15,000 and related premium of \$3,295.

Utility Investment's balance sheet as of November 30, 1977 and as adjusted to give effect to the proposed transaction is as follows:

<u>Assets</u>	<u>Recorded</u>	<u>Adjustments</u>		<u>Pro Forma</u>
		<u>Dr.</u>	<u>Cr.</u>	
Investments in San Gabriel Valley Water Co.	\$	\$10,204,802		\$10,204,802
Investment in land	11,054	184,980		196,034
Organization expense	320			320
<b>Total</b>	<b><u>\$11,374</u></b>			<b><u>\$10,401,156</u></b>
 <u>Liabilities</u>				
Accrued taxes	202			202
Capital stock	15,000	15,000	2,400,000	2,400,000
Capital surplus	3,295	3,295	203,275)	8,008,077
			7,804,802)	
Retained earnings	<u>(7,123)</u>			<u>(7,123)</u>
<b>Total</b>	<b><u>\$11,374</u></b>			<b><u>\$10,401,156</u></b>

The Finance Division and the Operations Division of the Commission staff have reviewed the proposal set forth in the application and consider the request to be reasonable. There is no known opposition and no reason to delay granting the authority requested. Utility Investment requests that the Commission's order be effective on its date. In the absence of any showing of urgency, however, this order will become effective after the statutory 20-day period.

After consideration the Commission finds that control of San Gabriel Valley Water Company by Utility Investment Company through acquisition of all of the outstanding common stock of the former would not be adverse to the public interest.

On the basis of the foregoing finding, we conclude that the application should be granted. A public hearing is not necessary. The authorization herein granted shall not be construed as a finding of the value of the assets or common stock of San Gabriel Valley Water Company.

O R D E R

IT IS ORDERED that Utility Investment Company may acquire all of the outstanding common stock of San Gabriel Valley Water Company.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 13<sup>th</sup> day of JUNE, 1978.

Robert Batimian  
President  
William J. Brown  
Simon S. Stroum  
Robert D. Lyle  
Clare L. Deibel  
Commissioners