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Decision No. 89131 JUL 25 1978

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHERN CALIFORNIA WATER COMPANY)
 and CALIFORNIA CITIES WATER COMPANY,)
 for an order authorizing (i) the)
 issuance by SOUTHERN CALIFORNIA WATER)
 COMPANY of not to exceed \$3,995,000)
 aggregate principal amount of its)
 First Mortgage Bonds, 6.80% Series)
 due 1997 in exchange for the out-)
 standing CALIFORNIA CITIES WATER)
 COMPANY First Mortgage Bonds of like)
 interest rate and amount and (ii) the)
 merger of the Applicants.)

Application No. 58108
(Filed May 26, 1978)

O P I N I O N

By this application, Southern California Water Company (SCWC) proposes to issue \$3,995,000 aggregate principal amount of its First Mortgage Bonds, 6.80% Series due April 1, 1997 (New Bonds) in exchange for a like amount of First Mortgage Bonds, 6.80% Series A due April 1, 1997 (Old Bonds) of California Cities Water Company (Cal Cities), and the two companies propose to merge, with SCWC as the surviving corporation.

SCWC and Cal Cities are both public utilities engaged in the business of producing, distributing and selling water in several counties throughout the state. In addition, SCWC distributes and sells electricity in a portion of San Bernardino County. Operating revenues for SCWC and Cal Cities totaled \$20,898,044 and \$3,150,618, respectively, for the calendar year 1977. SCWC owns all of the outstanding capital stock of Cal Cities pursuant to authority granted by Decision No. 85622, dated March 23, 1976 in Application No. 56311.

A.58108 dpg

The New Bonds would be issued to Pacific Mutual Life Insurance Company (PMLI) in exchange for the Old Bonds of Cal Cities. The New Bonds would be secured by an existing indenture as previously supplemented and as further supplemented by a proposed Supplemental Indenture executed by SCWC to Bank of America National Trust and Savings Association, Trustee, dated as of April 1, 1978. A copy of the proposed Supplemental Indenture is attached to the application as Exhibit B. In connection with the exchange, Cal Cities property would be released for the lien of the Indenture dated as of April 1, 1972 between Cal Cities and Security Pacific National Bank, as Trustee, pursuant to which the Old Bonds of Cal Cities were issued. A copy of the Exchange Agreement between SCWC and PMLI is attached to the application as Exhibit C.

The applicants propose a merger whereby Cal Cities would merge into SCWC, and upon completion of the merger, SCWC would succeed to all the properties and assume all of the public utility obligations and liabilities of Cal Cities. The merger would be in conformance with Section 1110(a) of the California Corporations Code and a Certificate of Ownership in substantially the form attached to the application as Exhibit D.

A consolidated balance sheet for the two companies as of March 31, 1978 is summarized below:

| <u>Assets</u> | |
|--------------------------------------|----------------------|
| Current assets | \$ 4,936,237 |
| Net utility plant | 94,936,524 |
| Investments | 578,061 |
| Other assets | 657,037 |
| Total | <u>\$101,107,859</u> |
| <u>Liabilities</u> | |
| Current and accrued liabilities | \$ 5,171,211 |
| Common stock equity | 22,501,341 |
| Preferred stock | 8,960,000 |
| Long-term debt | 35,099,469 |
| Bank loans | 3,400,000 |
| Advances for construction | 18,650,835 |
| Contributions in aid of construction | 7,113,248 |
| Other liabilities | 211,755 |
| Total | <u>\$101,107,859</u> |

The application states that the proposed merger would increase administrative efficiency and reduce certain costs by eliminating the duplication inherent in maintaining a separate subsidiary; moreover, the merger would also simplify accounting and regulatory reporting procedures.

In view of the existing parent-subsidiary relationship, the Finance Division concludes that the proposed transactions would be reasonable and would produce the administrative efficiencies and cost savings referred to in the application. The Operations Division reviewed the application and essentially agrees with the conclusions of the Finance Division.

After consideration the Commission finds that:

1. The proposed transactions would not be adverse to the public interest.
2. The proposed bond issue is for a proper purpose.
3. The money, property or labor to be procured or paid for by the bond issue herein authorized is reasonably required for the purpose specified herein, which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings, we conclude that the application should be granted. There is no known opposition to granting the applicants' request. A public hearing is not necessary. Because of the time element, applicants have informally requested an order effective on the date thereof.

The authorization herein granted is for the purpose of this proceeding only and is not to be construed as a finding of the value of the properties merged, 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. Southern California Water Company, on or after the date hereof, may issue \$3,995,000 aggregate principal amount of its First Mortgage Bonds, 6.80% Series due 1997, under the terms and for the purpose specified in this proceeding.
2. Southern California Water Company may execute and deliver a Supplemental Indenture in substantially the same form as Exhibit B attached to the application.
3. California Cities Water Company may merge into Southern California Water Company. The merger may be made effective as of June 30, 1978 for accounting purposes.
4. Upon consideration of the merger, Southern California Water Company, as the surviving corporation, may assume all of the liabilities and shall undertake the public utility obligations of California Cities Water Company.
5. Within thirty days after consummation of the merger, Southern California Water Company shall notify the Commission, in writing, of that fact.

6. Not less than five days before the date of actual merger, Southern California Water Company shall file with the Commission, by advice letter, four copies of a notice of adoption of the tariff schedules of California Cities Water Company then in effect. The effective date of the notice of adoption shall be concurrent with the date of actual merger.

7. Within sixty days after the effective date of actual merger herein authorized and in accordance with the requirements of General Order No. 96-A, Southern California Water Company, as part of its tariffs, shall refile the tariff maps and rate schedules applicable to the areas served by California Cities Water Company, and the rules and standard forms of the companies to be merged may be standardized to the extent that they do not result in increases in rates or more restrictive conditions than those in effect.

8. Within sixty days after consummation of the merger herein authorized, Southern California Water Company shall file with the Commission a copy of each journal entry used to record the merger on its books of account.

9. On or before the end of the third month after consummation of the merger herein authorized, Southern California Water Company shall cause to be filed with the Commission, in such form as it may prescribe, annual reports covering the operations of California Cities Water Company and its several districts for the period commencing with the first day of the current year to and including the effective date of merger.

10. Southern California Water Company shall maintain separate plant, depreciation reserve, operating revenue and direct expense and tax records for the several districts now served by California Cities Water Company in such manner as to permit ready determination of the original cost of plant and the cost of providing water service as if no merger occurred.

A.58108 dpg

11. Southern California 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.

12. Upon compliance with all of the conditions of this order, California Cities Water Company shall stand relieved of all further public utility obligations pertaining to the operations of the public utility water systems herein authorized to be merged.

13. The effective date of this order is the date hercof. Unless exercised, the authority herein granted will expire on December 31, 1978.

Dated at San Francisco, California, this 25th day of July, 1978.

Robert Bateman
President
William S. Young
George L. Sturgeon
Joseph W. Howell
Clair J. DeBorja
Commissioners