

Decision No. 91333 FEB 13 1980

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

APPLICATION OF HILLCREST WATER
CO., INC., NEW HELVETIA WATER CO.,
AND WEST GATE WATER COMPANY FOR
ORDER AUTHORIZING AND APPROVING
MERGER OF WEST GATE WATER COMPANY
AND NEW HELVETIA WATER CO., INTO
HILLCREST WATER CO., INC. (PUBLIC
UTILITIES CODE SECTIONS 851 et seq.)

Application No. 59120
(Filed September 5, 1979)

O P I N I O N

Hillcrest Water Co., Inc. (Hillcrest), a California corporation, New Helvetia Water Co. (New Helvetia), a California corporation, and West Gate Water Company (West Gate), a California corporation, request authority under Section 851 of the California Public Utilities Code to merge the water systems of New Helvetia and West Gate into Hillcrest; for New Helvetia and West Gate to be relieved of their public obligations in relation to the water systems transferred; and for Hillcrest, under Sections 817 and 818 of the Public Utilities Code, upon the surrender of existing shares of stock in West Gate and New Helvetia, to issue to the stockholders of Hillcrest 61,042 shares of its one dollar par value stock for the purchase of West Gate, and 9,114 shares of its one dollar par value stock for the purchase of New Helvetia.

All outstanding shares of stock of Hillcrest, West Gate, and New Helvetia are now owned by Daryl Morrison who, upon accomplishment of the requested merger and issue of stock, will continue to be the owner and sole stockholder of Hillcrest.

Hillcrest, West Gate, and New Helvetia provide domestic and commercial water service on the same flat rate basis, in the same geographical area in or near the City of Yuba City, Sutter County.

A. 59120 FG

Hillcrest was authorized to acquire the water system by Decision No. 59049, dated September 29, 1959, in Application No. 41425. It served 953 commercial and domestic customers and 108 fire hydrants at the end of 1978. West Gate was authorized to acquire the water system by Decision No. 71915, dated January 24, 1967, in Application No. 49058. At the end of 1978, it served 280 residences and 19 fire hydrants and had 109 inactive residential services and 4 inactive fire hydrants. New Helvetia was granted a Certificate of Public Convenience and Necessity to construct and operate a public utility by Decision No. 53756, dated September 11, 1956, in Application No. 37978. It served 82 residences and 10 fire hydrants at the end of 1978.

The reasons for the request to merge the three corporations, as given in the application, are basically that they are now operated as a single business entity, having the same office, same employees, same rates for water service, same directors and corporate officers, serve in the same geographical area, and all the stock is owned by the same person. The application states that the proposed merger would increase the efficiency of the operations and significantly reduce the cost of operations by eliminating the necessity of maintaining three sets of books and records and making three separate reports to this Commission.

Mr. James M. Reddick, attorney for applicants, has provided data requested by staff pertaining to the financial aspects of the proposed merger by letter dated November 27, 1979, which, with enclosures, has been entered into the Commission file in this matter. The pro forma balance sheet, the calculation of exchange rate of stock transfer, and the authorization for long-term debt, which follow, are based on the data thus provided.

A. 59120 FG

Under the terms of the merger agreement, Exhibit A to the application, the effective date of the merger will be the effective date of the approval of this Commission. At that time the separate existence of West Gate and New Helvetia will cease and Hillcrest will succeed, without other transfer, to all rights and properties of West Gate and New Helvetia and will be subject to all of the debts and liabilities of each.

Mr. Morrison will surrender all of his shares of stock in West Gate and New Helvetia and will receive stock in Hillcrest in return on the following basis as determined by the Commission staff from data provided:

<u>Disappearing Corporation</u>	<u>No. of Shares Outstanding</u>	<u>No. of Shares of Hillcrest Per Share of Disappearing Corporation</u>	<u>Total No. of Shares of Hillcrest to be Issued</u>
West Gate Water Company	217	350.2	75,996
New Helvetia Water Co.	210	61.8	12,977

The exchange rate was determined by the following calculations:

	<u>Hillcrest</u>	<u>Westgate</u>	<u>New Helvetia</u>	<u>Total</u>
Assets	\$ 476,571.	\$ 279,829	\$ 22,477	\$778,877
Liabilities	<u>332,921</u>	<u>153,014</u>	<u>822</u>	<u>486,757</u>
Net Book Value	\$ 143,650	\$ 126,815	\$ 21,655	\$292,120
Divided by Number of Shares Outstanding				
((A) \$1 Par (B) \$100 Par)	86,112(A)	217(B)	210(B)	
Net Book Value Per Share	1.6682	584.4009	103.1190	
Number of Equivalent Hillcrest Shares	1.0	350.2099	61.7955	
Rounded		350.2	61.8	
Multiplied by Number of Shares Outstanding		217	210	
Number of Shares to be Exchanged		75,996	12,977	88,973

A. 59120 FG

A pro forma consolidated balance sheet as of April 30, 1979 reflecting the proposed merger, as summarized from data provided by Attorney Reddick, is as follows:

Assets

Current Assets	\$ 3,706
Accounts Receivable	27,698
Net Utility Plant	743,410
Other Assets	4,063
Total	<u>\$778,877</u>

Liabilities

Current and Accrued Liabilities	\$ 23,755
Common Stock Equity	292,120
Long-Term Debt	6,750
Advances for Construction	377,399
Contributions in Aid of Construction	78,853
Total	<u>\$778,877</u>

No changes will occur in operations or personnel as a result of the merger of the three systems.

The Utilities Division and the Revenue Requirements Division have reviewed the proposal set forth in the application and consider the request for merger reasonable.

Findings of Fact

1. Hillcrest Water Co., Inc., West Gate Water Company, and New Helvetia Water Co. are California corporations and public utilities subject to the jurisdiction of this Commission.
2. The proposed merger into one surviving corporation would not be adverse to the public interest.
3. The proposed stock issue is for a proper purpose.

4. The money, property or labor to be procured or paid for by the issue of stock 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.

5. There is no known opposition and there is no reason to delay granting the authority requested.

Conclusions of Law

1. The application should be granted to the extent set forth in the order which follows.

2. A public hearing is not necessary.

3. The action taken herein shall not be construed as a finding of the value of the rights and properties authorized to be transferred. In issuing this decision, we place Hillcrest Water Co., Inc., a corporation, and its shareholder on notice that we do not regard the number of shares outstanding, the stated value of the shares, nor the dividends paid, as measuring the return it should be allowed to earn on its investment in plant, and that this authorization is not to be construed as a finding of the value of the company's stock or property, 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. On or after the effective date hereof and before March 31, 1980, West Gate Water Company and New Helvetia Water Co. may merge their water systems and related assets referred to in the application into Hillcrest Water Co., Inc., a corporation.

2. Hillcrest Water Co., Inc., in acquiring the water systems and related assets, shall assume the outstanding liabilities and may issue not exceeding 88,973 shares of its one dollar par value capital stock.

3. Daryl Morrison may acquire a controlling interest in the capital stock of Hillcrest Water Co., Inc.

4. Hillcrest Water Co., Inc. shall file with the Commission the report required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

5. As a condition of this grant of authority, Hillcrest Water Co., Inc. shall assume the public utility obligations of the water systems being transferred and shall also assume liability for refunds of all existing customer deposits and advances pertaining to the water systems being transferred. Hillcrest Water Co., Inc. shall send notice of the assumption of liability for refunds to all customers affected.

6. Within ten days after the completion of the transfer authorized herein, Hillcrest Water Co., Inc. shall notify this Commission, in writing, of the date of completion and of the assumption of the obligations set forth in Ordering Paragraph No. 5 of this order.

7. Hillcrest Water Co., Inc. shall either file a statement adopting tariffs of West Gate Water Company and New Helvetia Water Co. now on file with this Commission or refile under its own name those tariffs in accordance with the procedures prescribed by General Order No. 96-A. No increase in rates shall be made unless authorized by this Commission.

8. On or before the date of actual transfer, West Gate Water Company and New Helvetia Water Co. shall deliver to Hillcrest Water Co., Inc., and the corporation shall receive and preserve, all records, memoranda, and paper pertaining to the construction and operation of the water systems authorized to be transferred.

9. Within sixty days after completion of the transfer authorized herein, Hillcrest Water Co., Inc. shall file with the Commission a copy of each journal entry used to record the transactions on its books of account.

10. Upon compliance with all the terms and conditions of this order, West Gate Water Company and New Helvetia Water Co. shall be relieved of their public utility obligations in connection with the water systems transferred.

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

Dated FEB 13 1980, at San Francisco, California.

John E. Conyon
President

Leonard M. Crimes, Jr.

Richard D. Howell

Clair J. DeLoach

Commissioners

Commissioner Leonard M. Crimes, Jr.,
being necessarily absent, did not
participate.