

Decision No. 21817

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SOUTHERN CALIFORNIA WATER COMPANY
for an order authorizing it to issue
and sell \$500,000. par value of 6%
preferred stock, and to use the pro-
ceeds from the sale thereof to reim-
burse its treasury for capital expen-
ditures made prior to January 1, 1938,
and for the construction and/or acqui-
sition of additions and betterments to
its plants and systems; and to issue
61,932 shares of common stock of \$25.
per share par value in exchange for
15,483 shares of common stock at \$100.
per share par value.

ORIGINAL

Application No. 21817

Paul Overton, for applicant.

BY THE COMMISSION:

OPINION

In this proceeding the Commission is asked to enter its order authorizing Southern California Water Company to issue 61,932 shares of its common stock of the par value of \$25. per share and to exchange four shares of said stock for each one share of its issued and outstanding common stock of the par value of \$100.; and to authorize said company to issue and sell 20,000 shares of the par value of \$25. per share of its 6% cumulative preferred stock at a price to net applicant not less than \$21. per share and to use the proceeds arising from the sale thereof to reimburse applicant's treasury in the amount of \$140,663.90 expended for additions and betterments to its plant and systems prior to January 1, 1938, to use the remainder of said proceeds to pay in part the cost of the additions and betterments to applicant's plants and properties described in Exhibit B filed in this proceeding and referred to herein.

Southern California Water Company is a public utility engaged in the production and distribution of water to the public generally in certain municipalities and in certain unincorporated territory situate in the Counties of Los Angeles, Orange, San Bernardino, Ventura, Imperial and Sacramento and in the distribution of

electric energy to the public generally in Bear Valley, San Bernardino County.

Applicant has outstanding \$1,548,300. par value of common stock, all of which is owned by American States Utilities Corporation. It also had outstanding on December 31, 1937 \$3,617,000. of first mortgage 4-1/2% bonds due October 1, 1960.

As of December 31, 1937 the company reports assets and liabilities as follows:-

A S S E T S

Fixed capital	\$8,159,103.75
Cash and special deposits	55,552.75
Accounts receivable	66,845.13
Miscellaneous investments	63,845.65
Materials and supplies	54,797.14
Prepaid expenses	27,720.04
Unamortized discount and expense on securities	48,969.36
Other suspense	3,156.16
Construction work in progress	33,204.83
Total	<u>\$8,513,194.81</u>

L I A B I L I T I E S

Capital stock-Common	\$1,548,300.00
First mortgage 4 1/2% bonds due October 1, 1960	3,617,000.00
Due system corporations	19,223.14
Audited vouchers and wages unpaid	60,487.50
Consumers' deposits	45,484.78
Miscellaneous accounts payable	8,069.24
Interest accrued	40,691.25
Taxes accrued	51,203.66
Consumers' advances for construction	44,224.91
Donations in aid of construction	486,120.61
Reserve for accrued depreciation	1,809,429.31
Other reserve from income or surplus	2,202.00
Capital surplus	333,566.11
Appropriated earned surplus	166,433.89
Corporate surplus unappropriated	280,758.41
Total	<u>\$8,513,194.81</u>

In the years 1936 and 1937 applicant reports its operating and nonoperating revenues, operating expenses, nonoperating expenses and fixed charges as follows:-

ITEM	1936	1937
Operating revenues	\$1,117,679.00	\$1,148,764.93
Operating expenses	758,380.80	784,890.48
Net operating revenue	\$ 359,298.20	\$ 363,874.45
Uncollectible bills	3,404.10	4,085.42
Nonoperating income	\$ 355,894.10	\$ 359,789.03
Miscellaneous nonoperating revenues	\$ 23,302.19	\$ 21,654.56
Nonoperating revenue deductions	15,995.77	16,183.37
Total nonoperating income	\$ 7,306.42	\$ 5,471.19
Gross income	\$ 363,200.52	\$ 365,280.22
<u>Deductions from gross income:</u>		
Interest	\$ 204,377.08	\$ 161,534.28
Amortization of debt discount and expenses	-	1,370.72
Total deductions	\$ 204,377.08	\$ 162,905.00
Net income	\$ 158,823.44	\$ 202,355.22

The 1936 operating expenses include \$185,110.98 and the 1937, \$189,914.86 on account of depreciation.

By Decision No. 30009 dated August 9, 1937 in Application No. 21382 the Commission authorized applicant to issue \$250,000.00 of its first mortgage 4-1/2% bonds due October 1, 1960. Of this amount applicant issued \$217,000., leaving \$33,000. unissued. It is of record that applicant does not intend to issue the \$33,000. of bonds. In lieu thereof it proposes to finance \$33,000. of capital expenditures incurred prior to June 30, 1937 through the issue of preferred stock, referred to in this application. Exhibit A shows that from July 1, 1937 to December 31, 1937 applicant incurred construction expenditures of \$179,266.46, and that during the same period it retired property costing \$71,602.56, resulting in net construction expenditures of \$107,663.90. In Exhibit B applicant shows the estimated cost of additions and betterments which it proposes to install during 1938 at \$460,000. This expenditure may be summarized as follows:-

Land for additional water supply	\$ 4,500.00
New wells and equipment therefor	60,500.00
Pumping equipment and facilities	37,400.00
Purification facilities	18,700.00
Miscellaneous buildings	9,900.00
Pipes, valves, fittings and appurtenances	280,000.00
New service connections and meters for 1200 anticipated new consumers	30,000.00
12 automobiles and trucks	12,000.00
New equipment	2,500.00
Bear Valley electric system, additions and betterments to distribution system	4,500.00
Total estimated cost of proposed addi- tions and betterments.....	<u>\$460,000.00</u>

Applicant is of the opinion that \$100,000. of its 1938 construction expenditures can be paid for through the use of depreciation reserve moneys, leaving \$360,000. to be financed through the issue of preferred stock. The total amount of money which applicant will need to raise to take care of its construction expenditures to the end of 1938 is reported at \$500,663.90, made up of the following items:-

Expenditures prior to June 30, 1937	\$33,000.00
Net expenditures June 30, 1937 to Dec. 31, 1937	107,663.90
Estimated expenditures during the year 1938, less retirements from capital account	360,000.00
Total.....	<u>\$500,663.90</u>

There has been filed in this proceeding as Exhibit No. 1 a copy of applicant's amended articles of incorporation. Said articles provide for an issue of 400,000 shares of stock of the aggregate par value of \$10,000,000. The shares of stock are divided into two classes, to-wit: preferred and common. 80,000 shares having a par value of \$25. each represent preferred stock, and 320,000 shares, likewise having a par value of \$25. each, represent common stock. The articles provide that each class shall be entitled to voting rights on the basis of one vote for each share. The holders of preferred stock shall be entitled to receive out of any funds of the company at the time legally available for the declaration of dividends, dividends at the rate of 6% per annum of the par value thereof, and no more, payable in cash quarterly on the first day of March, June, September and December of each year. The dividends on such stock shall be cumulative and must be paid before any dividends may be paid on the common stock. So long as any of the preferred shares are outstanding, no dividends or other distribution shall be declared or paid on the common shares if the effect of such declaration, payments, and/or purchase would be to reduce the aggregate of the current assets of the company below 125% of the aggregate of its current liabilities, determined in accordance with proper accounting practice at the time, excepting that there shall be excluded from current liabilities all liabilities incurred or accrued on account of consumers' deposits.

The preferred stock is at the option of the board of directors of the company redeemable in whole or in part by paying in cash therefor \$26.25 per share plus accumulated and/or accrued dividends. In case of liquidation of the company the holders of the preferred stock shall receive \$25. per share plus accumulated and/or accrued dividends, before any payments are made to the holders of common stock.

Sub-paragraph six(6) of paragraph three (3) of applicant's amended articles of incorporation relating to the issue of additional preferred stock reads as follows:-

(6) After the issuance of Twenty Thousand(20,000) shares of preferred stock, no additional shares of such stock shall be issued except with the approval by vote or written assent of shareholders holding at least two-thirds of the issued and outstanding common shares exclusive of any shares held in the corporate treasury, and unless

(a) Approved by vote or written assent of shareholders holding at least two-thirds of the issued and outstanding preferred shares exclusive of any shares held in the corporate treasury; or

(b) For a period of any twelve(12) consecutive calendar months out of the fifteen calendar months next preceding the calendar month in which such additional shares are issued the excess of the gross income, including net non-operating income, from all sources of the corporation over the operating expenses and deductions from income of the corporation(including rentals, insurance charges, interest on consumers' deposits, license fees, maintenance charges, amounts reserved for depreciation and amortization of debt and/or stock discount and expense, but only to the extent that such amounts reserved and amortization are set up as charges against income on the books of the corporation) and taxes including income and profits taxes(but not surtax on undistributed profits) and, in lieu of interest paid or accrued on all funded or unfunded debt, exclusive of consumers' deposits, interest requirements for a period of one(1) year on all funded and unfunded debt of the corporation to be outstanding immediately following the issuance of the shares of preferred stock in respect of which the computation of earnings is being made, and not owned by the corporation, and all other charges and expenses customarily considered and treated as operating expenses or deductions from income according to sound accounting practices, shall be an amount at least equal to two(2) times one year's dividends at the yearly rate on all preferred shares and all other shares of stock of the corporation ranking on a parity with or having priority or preference over the preferred shares as to the payment of dividends to be outstanding immediately following the issuance of the shares of preferred stock in respect of which the computation of earnings is being made. In all computations of earnings under this sub-division (b) there shall be eliminated (1) except as above provided, all interest charges on debt, funded or otherwise; (2) all dividends paid or accrued on shares of stock ranking on a parity with or having priority or preference over the

preferred shares as to the payment of dividends at the time of the issuance of the preferred shares in respect of which the computation of earnings is being made; (3) all duplicate and/or offsetting items; (4) profits or losses, as the case may be, realized or suffered on the sale or other disposition of capital assets; (5) profits or losses, as the case may be, derived or resulting from the appreciation or depreciation in value of capital assets and increase or decrease in book value resulting from the appreciation or depreciation in value of capital assets and increase or decrease in book value resulting from reappraisals at higher or lower figures; (6) premiums or discounts upon the retirement of indebtedness or stock of the corporation except premiums paid upon the retirement of stock which may rank junior to the preferred shares as to the payment of dividends; (7) earnings from property not owned by the corporation at the time of the issuance of such additional stock, although such property may have been so owned during the whole or part of the period for which such computation is made; provided, however, that in case any property of the corporation shall have been owned by it during a part but not during the whole of the period for which such computation of net earnings is being made, or is to be acquired by the corporation simultaneously with the issuance and delivery of such additional stock, then and in every such event, the earnings, if any, of such property during such computation period shall be included in such computation of net earnings as though such property had been owned by this corporation during the entire period in respect of which such computation of earnings is made. Whenever computations of earnings are required under the provisions of this clause, the treasurer of the corporation shall make such computations and shall submit the same to the Board of Directors, who shall be fully protected in relying in good faith thereon.

It is of record that the company has entered into an agreement with Chandler & Company, Inc. and Banks, Huntley & Co., under the terms of which such firms will act as agents to sell 20,000 shares of applicant's 6% preferred stock. This stock, if present conditions continue to prevail will be offered to the public at a price of \$23.00 per share and accrued dividends. The agents are to receive as their compensation \$2.00 per share for each share sold. They are committed, however, to make available to the company prior to June 30, 1938, \$150,000. regardless of the amount of stock sold by that time. The expenses, such as preparing a registration statement, attorney fees, stamp taxes, will be paid by the company.

The proceeds which applicant will receive from the issue of the preferred stock will be used by it to finance in part the construction expenditures referred to above.

There is no doubt in our mind that applicant needs additional funds for construction purposes. But the conditions under which applicant proposes to raise such funds are so unusual that we feel that the commissions and expenses it has agreed to pay in connection with the sale of said preferred stock should be charged to Account 15, "Other suspense" and written off by charges to earned surplus within a period of five years after the issue of said stock. The order will so provide.

ORDER

Southern California Water Company having asked permission to issue stock in the amount, as indicated in the foregoing opinion, a public hearing having been held before Examiner Fankhauser, and the Commission having considered the evidence submitted at such hearing and being of the opinion that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required by applicant for the purposes herein stated, and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expenses or to income and that this application should be granted subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED as follows:-

1. Southern California Water Company may, on or before May 31, 1938, issue 61,932 shares of its common stock of the par value of \$25.00 per share and exchange four (4) shares of such stock for each one share of its issued and outstanding common stock of the par value of \$100.00.
2. Southern California Water Company may issue and sell, after the effective date hereof and prior to October 1, 1938 at not less than \$23.00 per share, 20,000 shares of its 6% preferred stock and expend of the proceeds \$360,000.00 to finance and pay the cost of additions and betterments described in Exhibit B filed in this proceeding and use the remainder of the proceeds to reimburse its treasury because of expenditures for additions and betterments incurred prior to January 1, 1938, which proceeds, after the reimbursement of the treasury, may be used for general corporate purposes including the payment of stock

selling expenses and commissions.

3. Within thirty(30) days after the effective date of the registration statement filed with the Securities and Exchange Commission, Southern California Water Company shall file with the Railroad Commission a complete, true and correct copy of such registration statement and all exhibits attached thereto or made a part thereof.

4. Southern California Water Company shall charge to Account 15, "Other suspense" all commissions and expense which it pays in connection with the issue, sale and delivery of said preferred stock and write off by charges to Account 36, "Corporate surplus unappropriated" said commissions and expenses within a period of five years after the issue of said preferred stock.

5. Southern California Water Company shall, on or before January 1, 1939 file with the Railroad Commission a statement showing in detail the commissions and expenses paid by it because of the issue of the common and preferred stock herein authorized; the accounts to which such commissions and expenses were charged on its books and the amount charged to each account.

6. Southern California Water Company shall keep such record of the issue, sale and delivery of the stock herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24-A, which order insofar as applicable, is made a part of this order.

7. The authority herein granted will become effective fifteen (15) days after the date hereof.

DATED at San Francisco, California, this 28th day of March, 1938.

Walter H. ...
Leon ...
Frederick ...
Roger ...
Walter H. ...
Commissioners.