

Decision No. 00000

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 12,000 Shares of Its 5%  
Preferred Stock to Provide Funds for  
the Discharge of Its Obligations and  
for Additional Working Capital.

**ORIGINAL**

Application No. 24174

Paul Overton for Applicant

BY THE COMMISSION:

O P I N I O N

In this proceeding, Southern California Water Company asks the Railroad Commission to enter its order authorizing said Southern California Water Company to issue and sell 12,000 shares (\$300,000 par value) of its 5% preferred stock at \$24.00 per share and use the proceeds to pay expenses incident to the issue of the stock, to reimburse its treasury on account of income expended for additions and betterments to its properties and to pay the cost of constructing additions and betterments to which reference will be made hereafter.

Southern California Water Company is a corporation organized under the laws of the State of California. It is engaged, among other things, in providing, distributing and supplying water to certain areas within the Counties of Los Angeles, Orange, San Bernardino, Ventura, Imperial and Sacramento and in furnishing, distributing and supplying electricity at Bear Valley in San Bernardino County.

Southern California Water Company, hereinafter some times referred to as applicant, has recently amended its Articles of Incorporation. As amended, they provide for an authorized stock issue of 400,000 shares of the aggregate par value of \$10,000,000. These shares of stock are divided into three classes to-wit: 6% preferred shares, 5% preferred shares and common shares. The number of 6% preferred shares authorized is 40,000, the number of 5% preferred shares authorized is 60,000 and the number of common shares authorized is 300,000. Each share of stock has a par value of \$25.00. All shares of each class of stock shall be entitled to voting rights on the basis of one vote for each share.

Applicant now has outstanding \$1,548,300 par value of common stock and \$500,000 of 6% preferred stock.

As of December 31, 1940, applicant, in Exhibit 2, reports its assets and liabilities as follows:

<u>ASSETS</u>		
Property, Plant and Equipment		\$8,807,947.59
Investments and Special Deposits		34,750.39
Current Assets:		497,486.70
Cash - Demand Deposits	\$156,196.79	
Cash - Time Deposits	150,983.33	
Working Funds	8,855.00	
Accounts Receivable - Net	63,080.54	
Materials and Supplies at cost	84,403.62	
Prepaid taxes and Insurance	33,967.42	
Deferred Charges		145,206.59
Unamortized debt discount, premium and expense	144,491.60	
Other deferred charges	714.99	
Discount on 6% preferred stock		<u>40,000.00</u>
Total Assets		<u>\$9,525,391.27</u>

(For liabilities see next page)

LIABILITIES

Capital Stock		\$2,048,300.00
Common Stock	1,548,300.00	
Preferred Stock	500,000.00	
Funded Debt		3,860,000.00
First Mortgage Bonds, Series A, due Mar.1, 1970, 3-3/4%	3,500,000.00	
Serial Notes 2-3/4%	360,000.00	
Current Liabilities:		333,540.63
Notes Payable	105,000.00	
Accounts Payable	33,930.35	
Consumers' Deposits	50,614.14	
Accrued Interest	47,197.84	
Accrued Taxes	92,024.71	
Other Current Liabilities	4,773.59	
Consumers' Advances for Con- struction		34,605.22
Reserve for Depreciation		1,736,828.21
Donations in aid of construction		516,713.78
Capital Surplus		395,269.54
Earned Surplus		<u>599,533.89</u>
Total Liabilities		<u>\$9,525,391.27</u>

Under the provisions of applicant's mortgage bond indenture and serial note agreement, dividends on capital stock are restricted to an aggregate amount not in excess of the net profits accumulated since December 31, 1939. Applicant's Articles of Incorporation, as amended, define the rights and preferences of the preferred stock. They provide that so long as any of the 6% preferred shares remain outstanding, no dividends, or other distribution, shall be declared or paid on the common shares if the effect of such declaration and/or payment would be to reduce the aggregate of the current assets of the company to below 125% of the aggregate of its current liabilities, exclusive of consumers' deposits.

Applicant, in Exhibit A, reports for the year ending March 31, 1941, operating revenues of \$1,318,789.51. Its operating expenses for the year, including provision for depreciation and all taxes, amounted to \$898,253.93, leaving net operating

revenues of \$420,535.58. Its miscellaneous nonoperating income is reported at \$3,838.81. Its uncollectible bills are reported at \$3,497.63, its interest charges at \$146,906.66 and its charges for amortization of debt discount and expense at \$8,743.45. Applicant's net income amounted to \$265,226.65.

By Decision No. 33939, dated February 25, 1941, in Application No. 23975, the Commission authorized applicant to issue and sell, at 101½% of their face value and accrued interest, \$300,000 of first mortgage 3½% bonds, due March 1, 1970, and use the proceeds to reimburse its treasury because of income expended for additions and betterments, to pay indebtedness and, in part, to pay the cost of 1941 additions and betterments to its properties. Applicant has sold said bonds. The indenture securing the payment of the bonds provides that the bonds issued thereunder against property acquired after December 31, 1939 may not exceed 66-2/3% of the net bondable additions as that term is defined in the indenture. From December 31, 1939, to April 1, 1941, applicant expended for additions and betterments the gross sum of \$605,504.78. Its retirements during the period amounted to \$137,552.03, resulting in a net construction expenditure of \$467,952.75.

The testimony, and Exhibit C, show that applicant, from March 31, 1941, to July 1, 1942, will expend about \$810,000 for additions and betterments to its properties, segregated as follows:

Water supply	\$215,000
Distribution system	442,500
New meters and services	100,000
Autos and trucks	15,000
Office equipment	10,000
Shop equipment	7,500
Bear Valley Electric System	20,000
Total	<u>\$810,000</u>

The additions and betterments to the distribution system consist of the following:

91,010'	of	4"	cast	iron	pipe
62,920'	"	6"	"	"	"
40,845'	"	8"	"	"	"
1,350'	"	10"	"	"	"
5,300'	"	12"	"	"	"
13,400'	"	4"	steel	pipe	
10,400'	"	6"	"	"	
8,400'	"	8"	"	"	
19,200'	"	12"	"	"	
Total		252,825'			

In addition to financing said construction program, applicant must pay \$120,000 face value of 2-3/4% serial notes of which \$40,000 are due June 28, 1941, \$40,000 on December 28, 1941, and \$40,000 on June 28, 1942. To carry forward its construction program and pay indebtedness, applicant asks permission to issue 12,000 shares (\$300,000 par value) of 5% preferred stock at \$24.00 per share. 8,000 shares of the stock will be purchased by Occidental Life Insurance Company of California and 4,000 shares by Pacific National Fire Insurance Company. Applicant estimates its expenses incident to the issue of stock at about \$3,500. It will pay no finder's fee or brokerage fee.

The testimony shows conclusively that applicant has need for the funds it will realize through the issue of the \$300,000 of 5% preferred stock.

#### O R D E R

A public hearing having been held on this application by Examiner Fankhauser, the Commission having considered the evidence submitted at such hearing and it being of the opinion that the money, property or labor to be procured or paid for by the issue of \$300,000 of 5% preferred stock by Southern California Water Company is reasonably required by said Southern California

Water Company for the purposes herein stated, that the expenditures for said 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,

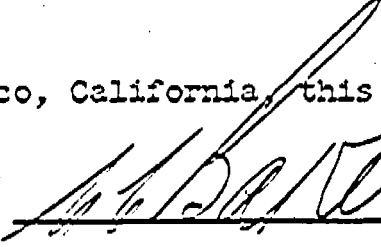
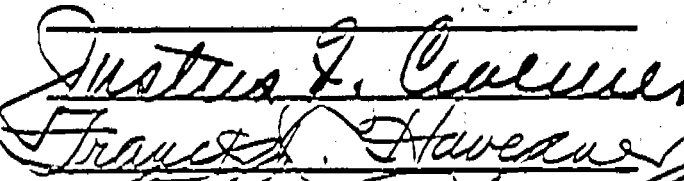
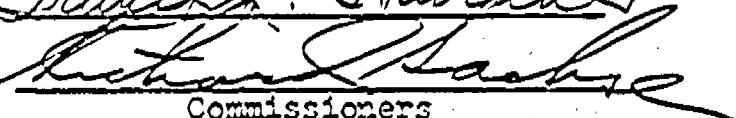
IT IS HEREBY ORDERED as follows:

1. Southern California Water Company may, on or before July 1, 1941, issue and sell at not less than \$24.00 per share, 12,000 shares of its 5% preferred stock and use the proceeds realized from the issue and sale of said stock to pay the expenses incident to the issue and sale of said stock, to reimburse its treasury on account of income expended for additions and betterments to its properties, and pay in part the cost of additions and betterments described in Exhibit C, filed in this proceeding, provided that only such expenditures as are chargeable to fixed capital accounts under the uniform classification of accounts prescribed by the Railroad Commission may be financed through the use of said preferred stock proceeds.

2. Southern California Water Company shall file monthly reports as required by the Commission's General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

3. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 27<sup>th</sup> day  
of May, 1941.

  
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Justice J. Cullen  
  
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Francis J. Haver  
  
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Richard H. Halse  
Commissioners