

Decision No. 38386

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 shares of its stock.

ORIGINAL

Application
No. 27011

O'Melveny & Myers, by Frederick N. Edwards,
for applicant.

BY THE COMMISSION:

OPINION

In this application, Southern California Water Company asks permission to issue and sell at \$26.50 per share, for the purposes herein stated, 32,000 shares of its preferred stock, 4 1/2% Series, and also issue 61,932 shares of its common stock in lieu of and in exchange, share for share, for a like number of its outstanding common shares of stock.

Applicant is a public utility and as such engages principally in the business of distributing and supplying water in certain areas within the Counties of Los Angeles, Orange, San Bernardino, Ventura, Imperial and Sacramento, California. To a limited extent, applicant also engages in the business of distributing and supplying electricity at Bear Valley in San Bernardino County, California. It also operates an ice plant in Barstow, San Bernardino County, California.

Applicant's gross operating revenue for the twelve months period ended August 31, 1945, are segregated as follows:

<u>Department</u>	<u>Amount</u>	<u>Percentage</u>
Water	\$1,572,733.40	92.29%
Electric	85,488.36	5.02%
Ice	45,828.75	2.69%
Total	\$1,704,050.51	100.00%

For the same period applicant's gross income, that is, the amount it had available to pay interest, amortized debt discount, premium and expense, pay dividends and for surplus, was \$399,258.38.

As of August 31, 1945, applicant reports assets and liabilities as follows:

ASSETS

Fixed capital		\$ 9,819,287.61
Miscellaneous investments		100,301.77
Current assets		875,661.41
Cash	\$308,467.61	
Special deposits	29,847.40	
U.S. Treasury tax notes	175,000.00	
Accounts receivable	182,345.47	
Interest receivable	591.40	
Materials and supplies	118,665.13	
Prepayments	60,744.40	
Deferred accounts		170,903.79
Unamortized debt discount and expense	100,279.80	
Unamortized preferred stock discount	52,000.00	
Other deferred items	18,623.99	
Total Assets		<u>\$10,966,154.58</u>

LIABILITIES

Capital stock		\$ 2,348,300.00
Common (61,932 shares)	\$1,548,300.00	
Preferred (6%-20,000 shares)	500,000.00	
(5%-12,000 shares)	300,000.00	
First mortgage bonds, due 3/1/70		3,800,000.00
Series A, 3-3/4%	3,500,000.00	
Series B, 3-1/2%	300,000.00	
Current liabilities		660,008.92
Notes payable	80,000.00	
Accounts payable	61,236.54	
Dividends declared	11,250.57	
Consumers' deposits	76,977.44	
Accrued interest	1,106.22	
Accrued taxes	419,443.54	
Accrued insurance	5,284.03	
Other current liabilities	4,710.58	
Consumers' advances for construction		88,506.92
Miscellaneous deferred credits		523.31
Depreciation reserve		2,732,517.92
Reserve for uncollectible accounts		2,000.00
Donations in aid of construction		607,022.62
Capital surplus		140,847.09
Earned surplus		<u>586,427.80</u>
Total Liabilities		<u>\$10,966,154.58</u>

As shown by the foregoing balance sheet, applicant has outstanding \$500,000 par value of 6% and \$300,000 par value of 5% preferred stock. It also has outstanding \$3,500,000 of 3-3/4% first mortgage bonds and \$300,000 of 3 1/2% first mortgage bonds, both issues being due March 1, 1970.

The testimony shows that applicant has under consideration the redemption of its outstanding preferred stocks and bonds. As a first step in reducing its annual capital charges, it proposes to redeem its outstanding 32,000 shares (\$800,000 par value) of preferred stock. The preferred shares are redeemable at any time on 'thirty days' notice at the option of

applicant's Board of Directors, at the redemption price of \$26.25 per share plus unpaid dividends accumulated thereon to and including the date fixed for redemption.

Applicant intends to amend its Articles of Incorporation by two separate amendments (Exhibit "1" and Exhibit "2"). As finally amended they will provide for two classes of stock, consisting of 100,000 shares of preferred and 300,000 shares of common, each having a par value of \$25 per share, or an aggregate par value of \$10,000,000.

As said, applicant now asks permission to issue 32,000 shares of preferred stock, 4 $\frac{1}{4}$ % Series. It has entered into an agreement to sell said 32,000 shares of stock at \$26.50 per share to the following:

Continental Casualty Company	4,000 shares
Continental Assurance Company	4,000 "
Investors' Syndicate	8,000 "
The Lincoln National Life Insurance Company	6,000 "
The Life Insurance Company of Virginia	4,000 "
Equitable Life Insurance Company of Iowa	4,000 "
Central Life Assurance Company (Mutual)	<u>2,000</u> "
Total	32,000 shares

The preferred shares, 4 $\frac{1}{4}$ % Series, are redeemable at any time on thirty days' notice at the option of the Board of Directors at the par value thereof plus unpaid dividends accrued thereon to and including the date fixed for redemption, and a premium of \$3 per share if redeemed on or prior to December 31, 1950; or a premium of \$2 per share if redeemed after December 31, 1950, but on or before December 31, 1952; or a premium of \$1.50 per share if redeemed after December 31, 1952. Upon the sale of the 32,000 shares of 4 $\frac{1}{4}$ % Series preferred stock, applicant will realize a gross consideration of \$848,000. It proposes to use \$840,000 of this amount to redeem its outstanding 6% and 5%

preferred stock, and \$8,000 to pay commissions incident to the sale of the 4½% Series preferred stock. At the price of \$26.50 per share, the effective dividend rate on the 4½% Series preferred stock is about 4.009%. The average effective dividend rate on the preferred stock now outstanding is about 6.015%.

The current annual dividends on applicant's presently outstanding preferred shares of stock amount to \$45,000. The annual dividends on the new shares of preferred stock amount to \$34,000. Applicant will thus effect an annual saving in dividends through the redemption of its outstanding preferred stock and the issue of 4½% preferred stock, of \$11,000. From this it deducts \$1,760 representing federal surtax at the present rate of 16%, leaving a net annual saving of \$9,240.

Applicant's officers are of the opinion that the refunding of its preferred stock on the basis herein indicated will enable it to refund its outstanding bonds at a more favorable price than would be possible were the present preferred stock outstanding.

The testimony shows that the premium which applicant must pay upon the redemption of its outstanding preferred shares of stock, amounting to \$40,000, and the preferred stock discount of \$52,000 now recorded on its books, will be charged to earned surplus. The commissions paid upon the sale of the new stock and the stock sales expenses, estimated at \$10,330, will be charged to capital stock expense.

All of applicant's outstanding 61,932 shares of common stock are owned by the American States Utilities Corporation, which is a registered holding company. Counsel for applicant is of the opinion that the amendments to its Articles of Incorporation

affect the rights of the holders of the common stock and that new common stock certificates should be issued. Applicant therefore asks permission to issue 61,932 shares of common stock in lieu of and in exchange, share for share, for a like number of its outstanding common shares of stock.

O R D E R

A public hearing having been held in the above entitled application by Examiner Fankhauser, and 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 Southern California Water Company through the issue of the stock herein authorized is reasonably required by applicant for the purposes herein stated, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

1. Southern California Water Company may, after the date hereof and on or before April 1, 1946, amend its Articles of Incorporation in, or substantially in, the form of the amendments filed in this application as Exhibit "1" and Exhibit "2".
2. Southern California Water Company may, after the date hereof and on or before April 1, 1946, issue and sell at \$26.50 per share, 32,000 shares of its preferred stock, 4½% Series, and use \$840,000 of the proceeds to redeem its outstanding 6% and its outstanding 5% preferred stocks, and use the

remainder of the proceeds to pay expenses incident to the issue of said 32,000 shares of preferred stock, 4½% Series.

3. Southern California Water Company may, after the date hereof and on or before April 1, 1946, issue 61,932 shares of its common stock in lieu of and in exchange, share for share, for a like number of its outstanding common shares of stock.

4. Within thirty (30) days after the issue of the 32,000 shares of preferred stock, 4½% Series, Southern California Water Company shall file with the Railroad Commission a certified copy of the amendments to its Articles of Incorporation, a statement showing to whom it issued and sold said 32,000 shares of stock, the price received for said shares of stock, and the purposes for which it expended said proceeds, and to whom it issued said 61,932 shares of common stock.

Dated at San Francisco, California, this 6th day of November, 1945.

Harold Anderson
Justus F. Caswell
Francis J. Davis
James H. Lawrence
 Commissioners