

Decision No. 39673

**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of )  
DEL ESTE WATER COMPANY, a )  
corporation, )  
for authorization to borrow money )  
and execute a note or notes. )  
----- )

Application  
No. 27986

OPINION

Del Este Water Company, applicant herein, is a corporation engaged in operating public utility water systems near Modesto, Stanislaus County.

This company was organized during 1938 and, according to financial reports filed with the Commission, has financed its capital requirements through the issue of common stock and short term loans, the incurring of open account indebtedness and the investment of surplus earnings. As of August 31, 1946, it reports its assets and liabilities as follows:

<u>ASSETS</u>	
Fixed capital	\$ 262,780.20
Miscellaneous investments	1,025.55
Cash	9,053.33
Accounts receivable	2,476.93
Materials and supplies	281.88
Total	<u>\$ 275,617.89</u>

<u>LIABILITIES</u>	
Capital stock	\$ 70,000.00
Notes payable	18,606.91
Accounts payable	35,757.58
Interest and taxes accrued	1,361.99
Service billed in advance	4,176.79
Consumers' advances	32,491.00
Donations in Aid of Construction	11,915.12
Reserve for depreciation	45,752.77
Surplus	55,555.73
Total	<u>\$ 275,617.89</u>

The company reports its revenues from operation at \$52,000 in 1944, at \$62,293 in 1945 and at \$49,224 during the first eight months of 1946 and its net revenue after deducting operating expenses, taxes and provision for depreciation at \$5,981 in 1944, at \$11,536 in 1945 and at \$8,006 during the first eight months of 1946.

The present application shows that the company now desires to enter into a loan agreement with American Trust Company and to borrow, in the aggregate, the sum of \$100,000, such sum to be represented by unsecured notes. At the outset it proposes to issue a note for \$50,000, with interest at the rate of 3½ percent per annum, payable in quarterly installments of \$1,250, with final payment however, to be made not later than January 1, 1957, in order to obtain funds for the following purposes:

To pay indebtedness to Beard Land and Investment Co.

Note payable	\$18,606.91
Interest on note to October 31, 1946	1,037.30
Open account payable	<u>24,344.10</u>
Sub Total	\$43,988.31

To pay for additional facilities	<u>6,011.69</u>
Total	\$50,000.00

It proposes to borrow additional sums, over and above the first \$50,000, from time to time as funds are needed for the construction, completion, extension or improvement of its facilities. If such additional borrowings are made before October 1, 1947, the rate of interest and the schedule of repayment will be identical in terms with those in the initial \$50,000 note issue; if borrowed after October 1, 1947, the rate of interest and maturity date or dates are to be agreed upon between the parties to the agreement at the time when such loans are made.

In support of the present request applicant alleges that the areas served by it have experienced rapid growth and that its income has been insufficient to meet the costs of additional facilities needed to meet the increased demand for service. It reports that its entire net income, as well as money represented by its reserve for depreciation, has been invested in properties and facilities, and that it has incurred obligations payable to Beard Land and Investment Co. in the amount of \$43,988.31, as set forth above, for the following purposes:

Extensions and improvements to plant	\$33,551.01
Rent of office facilities	9,400.00
Interest	1,037.30
Total	<u>\$43,988.31</u>

Although a portion of this indebtedness, which the company now proposes to discharge, consists of amounts due for rents and interest, it clearly appears that the company has expended much larger sums of its income for plant extensions for which it has not been reimbursed through the issue of securities.

A review of the application and of the company's financial reports, indicates that the issue of the \$50,000 note is warranted and that the company's assets and earnings are ample to support the issue. The request to issue the remaining \$50,000 of notes will be held in abeyance until applicant has made a more complete showing of the purposes for which it may desire to issue such note. Such showing can be made in a supplemental petition, or petitions, to this proceeding.

#### ORDER

Del Este Water Company having applied to the Railroad Commission for permission to enter into a loan agreement and to issue notes, and the Commission having considered the matter and

being of the opinion that a public hearing is not necessary, that the application should be granted, as herein provided, and that the money, property or labor to be procured or paid for through the issue of \$50,000 of notes is reasonably required for the purposes specified herein,

IT IS HEREBY ORDERED as follows:

1. Del Este Water Company, after the effective date hereof and on or before March 31, 1947, may enter into a loan agreement with American Trust Company in, or substantially in, the same form as the loan agreement filed in this proceeding as Exhibit A, and may issue a note in the principal amount of \$50,000, with interest on unpaid balances at the rate of  $3\frac{1}{2}$  percent per annum, payable in quarterly installments of \$1,250 plus interest for the purpose of paying indebtedness due Beard Land and Investment Co., of reimbursing its treasury and of financing the cost of capital additions and extensions to its plants and properties.

2. Del Este Water Company shall file with the Commission a report, or reports, of the issue of the note herein authorized and of the disposition of the proceeds 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 when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act.

Dated at San Francisco, California, this 27<sup>th</sup> day of November 1946.

Harold P. Kule

Justin F. Calmes

Harold Russell

A. E. Anderson

Commissioners

