

ORIGINAL

Decision No. 42220

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
of	:	
SOUTHERN CALIFORNIA WATER COMPANY,)	
for an order or orders authorizing it	:	Application
to issue its stock and bonds and to)	No. 29782.
mortgage its properties.	:	
-----)	

O'Melveny & Myers, by Frederick N. Edwards,
For Applicant.

O P I N I O N

In this application, Southern California Water Company asks permission to issue and sell, for the purposes hereafter stated, 36,000 Preferred Shares 5½% Convertible Series of stock, 20,925 Common Shares of stock, and \$1,000,000 principal amount of First Mortgage Bonds, 3% Series Due 1978. It also asks permission to issue from time to time, Common Shares of stock in such aggregate amount as may be required upon conversion of said shares of Preferred Stock pursuant to their terms, and to execute a supplemental indenture to be dated December 1, 1948.

Southern California Water Company, hereinafter sometimes referred to as Applicant, is a public utility and as such engages principally in the business of producing, distributing and supplying water in certain areas within the Counties of Los Angeles, Orange, San Bernardino, Imperial, Ventura and Sacramento, California. Applicant also engages in the public utility business of distributing and supplying electric energy in Bear

Valley, in San Bernardino County. It also owns and operates an ice plant in Barstow, San Bernardino County.

For 1946, 1947, and the twelve months ended September 30, 1948, Applicant's earnings may be summarized as follows:

<u>Item</u>	<u>1946</u>	<u>1947</u>	<u>12 Months 9-30-48</u>
Operating revenues:			
Water	\$1,781,305	\$2,011,720	\$2,172,349
Electric	144,733	166,467	169,366
Ice	42,410	42,181	42,040
Total operating revenues	<u>1,968,448</u>	<u>2,220,368</u>	<u>2,383,755</u>
Operating expenses	1,521,488	1,610,258	1,803,758
Net operating income before deducting special charges	446,960	610,110	579,997
Other income-net	3,899	6,906	6,290
Gross income before deducting special charges	450,859	617,016	586,287
Deductions:			
Interest	143,415	144,545	152,696
Amortization of debt discount and expense	6,689	2,352	665
Special charges equivalent to reduction in income taxes resulting from refunding of bonds	--	75,000	24,500
Other interest	459	1,043	2,883
Total deductions	<u>150,563</u>	<u>222,940</u>	<u>180,744</u>
Net income	300,296	394,076	405,543
Preferred stock dividends	45,796	66,000	66,000
Balance for common stock and surplus	<u>\$ 254,500</u>	<u>\$ 328,076</u>	<u>\$ 339,543</u>

During 1946 Applicant paid on its common stock dividends in the amount of \$200,659.68, in 1947 \$150,494.76, and during the first seven months of 1948 \$168,500.97. Applicant as of July 31, 1948, reports its assets and liabilities as follows:

Assets

Plant property and equipment		\$13,305,297.29
Tangible property	*\$13,201,784.04	
Intangible and water rights	103,513.25	
Nonoperating properties		106,774.00
Current assets		1,094,171.20
Special deposits	14,004.97	
Cash	428,426.46	
Accounts receivable	229,603.39	
Material and supplies	422,136.38	
Prepayments		124,551.71
Deferred charges		<u>25,716.87</u>
Total assets		<u>\$14,656,511.07</u>

* Water properties	\$12,304,521.22
Electric properties	540,268.04
Ice properties	60,569.34
Property under construction	<u>296,425.44</u>
Total	<u>\$13,201,784.04</u>

Liabilities and Surplus

Common stock		\$ 1,569,370.00
Preferred stock		1,600,000.00
Premium on sale of preferred stock		101,120.00
First mortgage bonds, 2-7/8% series, due 1977		5,100,000.00
Bank loans under credit agreement		200,000.00
Current liabilities		806,072.85
Accounts payable	\$224,718.09	
Interest accrued	37,364.58	
Taxes accrued	335,750.77	
Dividends payable	67,504.53	
Customers' deposits	119,104.32	
Other current liabilities	21,630.56	
Customers' advances for construction		648,463.71
Reserve for depreciation		3,330,826.46
Reserve for past service pensions		49,499.61
Unamortized premium on bonds		18,945.37
Donations in aid of construction		640,044.73
Capital surplus		162,018.75
Earned surplus		<u>430,149.59</u>
Total liabilities and surplus		<u>\$14,656,511.07</u>

Applicant's outstanding Preferred Stock consists of 32,000 shares of 4-1/4% Series and 32,000 shares of 4% Series. Presently it has outstanding under the credit agreement executed pursuant to the authority granted by Decision No. 41317, dated March 16, 1948, in Application No. 29149, \$800,000 of notes.

The testimony shows that Applicant has expended, or will expend, during 1948 for the acquisition or construction of properties, approximately \$2,000,000. For 1949 it estimates its capital expenditures at \$2,150,000, segregated as follows:

Water supply	\$ 455,000
Distribution mains and appurtenances	960,000
Meters and services	385,000
Bear Valley electric system	200,000
Miscellaneous	<u>150,000</u>
Total	<u>\$2,150,000</u>

The above estimated expenditures for 1949 do not include advances of about \$210,000 from real estate subdividers.

Applicant has entered into agreements with Aetna Life Insurance Company and Provident Mutual Life Insurance Company of Philadelphia for the sale to them of \$1,000,000 principal amount of First Mortgage Bonds, 3% Series Due 1978. Each company will acquire \$500,000 of said bonds. The sale price is 99.02% of the principal amount plus accrued interest from December 1, 1948, to the date of the delivery of the bonds. At that price the effective interest rate is about 3.05%.

Applicant intends to offer 20,924-2/3 Common Shares of its stock to the holders of its outstanding Common Shares on the basis of one share for each three Common Shares held on the record date, to wit, November 16, 1948. The right to subscribe for the stock expires on November 30, 1948. The shares have a par value of \$25, and will be offered to the holders of Applicant's Common Shares at \$36 per share. An underwriting syndicate represented by Harris, Hall & Company (Incorporated) has agreed to purchase from Applicant 20,925 Common Shares, or such part thereof as may not be subscribed for by the stockholders. The underwriters agree to pay Applicant \$36 per share. However, if any of the Common Shares are sold by the underwriters at a price in excess of \$36 per share, the underwriters have agreed to pay

Applicant in addition to \$36 per share, a sum equal to 50% of such excess up to \$1 per share, plus 75% of such excess, if any, over \$1 per share. The underwriters are to receive a standby commission of \$1 per share on each of the 20,925 Common Shares, plus \$1 for each share purchased by the underwriters from Applicant if the number of shares unsubscribed under the warrants aggregates more than 2,093 shares but not more than 5,231 shares, or \$1.25 per share so purchased if the unsubscribed shares aggregate more than 5,231 but not more than 10,463, or \$1.50 for each share so purchased if the unsubscribed shares aggregate more than 10,463.

Applicant asks permission to issue subscription warrants for the Common Shares.

Applicant has entered into an agreement to sell to said underwriting syndicate said 36,000 Preferred Shares of 5 $\frac{1}{2}$ % Convertible Series at their par value, to wit, \$25 per share. The underwriters propose to offer the preferred shares for sale at \$26.50 per share. The preferred shares may, at the option of the holders, be converted into common shares on the initial basis of one share of preferred for 6/10ths of a share of common. The preferred shares are redeemable, at the option of Applicant, at \$25 per share plus accrued dividends to date of redemption and a premium as follows: \$2.75 per share if redeemed on or prior to November 30, 1951, \$2.50 per share if redeemed thereafter but on or prior to November 30, 1954, \$2.25 per share if redeemed thereafter but on or prior to November 30, 1957, \$2.00 per share if redeemed thereafter but on or prior to November 30, 1960, and \$1.75 per share if redeemed thereafter. Applicant asks permission to issue its Common Shares from time to time and in such

aggregate amount as may be required upon conversion of its Preferred Shares 5½% Convertible Series pursuant to their terms.

Applicant estimates its expenses incident to the issue and sale of said shares of stock and bonds, exclusive of underwriters' commissions, at \$57,440. The underwriters' commissions on the Common Shares will range from a minimum of \$20,925 to a maximum of \$52,312.50.

A copy of the underwriting agreement covering the sale of the stocks is on file in this application as Exhibit "1".

Assuming that Applicant will receive \$36 per share for the 20,925 Common Shares of stock, it will realize from the sale of its shares of stock and bonds a total of \$2,643,500, segregated as follows:

\$1,000,000 of bonds	\$ 990,200
36,000 Preferred Shares of stock	900,000
20,925 Common Shares of stock	<u>753,300</u>
Total	<u>\$2,643,500</u>

Applicant asks permission to use the proceeds to pay its expenses incident to the issue and sale of said bonds and shares of stock, to pay the \$800,000 of notes (bond proceeds will be used for this purpose), and to finance in part its 1949 construction program.

The two insurance companies are not obligated to acquire said \$1,000,000 of bonds unless Applicant sells the 36,000 Preferred Shares and 20,925 Common Shares of stock. Applicant's current capitalization ratios and what those ratios would have been had said bonds and stock been outstanding are as follows:

	<u>Current ratios</u>	<u>Pro forma ratios</u>
Bonds	53.12%	53.25%
Notes	8.33	-
Preferred stock	17.71	22.70
Common stock	16.34	20.27
Earned surplus	<u>4.48</u>	<u>3.75</u>
Total	<u>99.98%</u>	<u>99.97%</u>

It is essential that Applicant obtain a substantial part of its current capital requirements from the sale of stock.

Applicant has filed in this proceeding as Exhibit "4" a copy of its supplemental trust indenture. It expressly conveys to the Trustee under Applicant's original indenture dated May 1, 1947, certain after-acquired properties, sets forth the coupon and fully registered forms of the new series of bonds, and fixes the terms and provisions thereof. We find the same to be in satisfactory form.

O R D E R

The Commission having considered the testimony submitted at the hearing had on this application and it being of the opinion that the money, property or labor to be procured or paid for through the issue and sale of said shares of stock and bonds is reasonably required by Southern California Water Company for the purposes specified herein, that such purposes, other than the payment of accrued interest and expenses incident to the issue of said bonds, 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, effective as of this date and on or before December 31, 1948, issue and sell at not less than \$36 per share, 20,925 Common Shares of stock, 20,924-2/3 of said shares to be offered to the holders of its Common Shares of record on November 16, 1948, pursuant to subscription warrants, on the basis of one (1) share of the new stock for three (3) shares presently owned. Southern California Water Company may issue subscription warrants covering the offering of said shares of stock to its stockholders. The shares not subscribed for by the stockholders may be sold pursuant to the terms of the underwriting agreement on file in this application as Exhibit "1".

2. Southern California Water Company may, effective as of this date and on or before December 31, 1948, issue and sell at not less than \$25 per share, 36,000 Preferred Shares of 5 1/2% Convertible Series of stock, such shares to be sold pursuant to the terms of the underwriting agreement on file in this application as Exhibit "1".

3. Southern California Water Company may, effective upon the payment of the fee prescribed by Section 57 of the Public Utilities Act, and on or before December 31, 1948, issue and sell, at 99.02% of the principal amount plus accrued interest from December 1, 1948, to the date of payment for and the delivery of the bonds, \$1,000,000 principal amount of First Mortgage Bonds, 3% Series Due 1976.

4. Southern California Water Company may, effective as of this date and on or before December 31, 1948, execute a supple-

mental indenture in, or substantially in, the form of the indenture on file in this application as Exhibit "4".

5. Southern California Water Company may issue and deliver its Common Shares of stock from time to time and in such aggregate amount as may be required upon conversion of its Preferred Shares 5½% Convertible Series pursuant to their terms.

6. Southern California Water Company may use the proceeds obtained from the issue and sale of said stocks and bonds, other than accrued interest, to pay its expenses incident to the issue and sale of said stocks and bonds, to pay outstanding notes in the aggregate amount of \$200,000, and to pay in part its construction expenditures incurred during 1949 and referred to in Exhibit "9" on file in this proceeding. The accrued interest may be used for general corporate purposes.

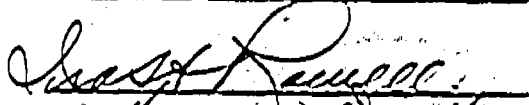
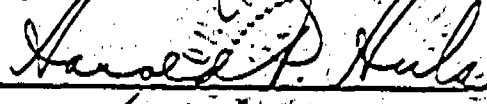
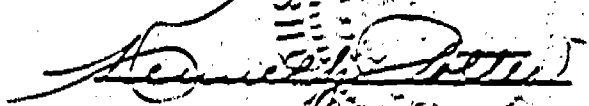
7. Southern California Water Company shall file with the Commission as soon as available, a complete copy of its registration statement filed with the Securities and Exchange Commission, together with the exhibits referred to therein except as to such exhibits as may heretofore have been filed with the Commission.

8. On or before January 31, 1949, Southern California Water Company shall file with the Commission a statement showing the number of shares of common stock and shares of preferred stock and bonds issued under the authority herein granted, the consideration received from the sale of said common shares and said preferred shares of stock and from said bonds, the amount of the proceeds expended to December 31, 1948, and the purpose for which said expenditures were made. Thereafter, the company shall

file, as soon as practical, quarterly reports showing the purposes for which said remaining proceeds were expended.

9. Southern California Water Company shall, on or before June 30, 1949, file with the Commission a statement showing in detail the expenses incurred by it in connection with the issue of said shares of stock and bonds.

Dated at San Francisco, California, this 16th day of November, 1948.




 Commissioners

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 STATE OF CALIFORNIA
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