

ORIGINAL

Decision No. 42435

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

WASHINGTON WATER AND LIGHT COMPANY

for an order authorizing it (a) to issue its promissory note in the amount of \$225,000 to Pacific Mutual Life Insurance Company; (b) to execute a mortgage of chattels and real property securing said promissory note; (c) to issue and sell, at par, 6,100 of its 5% Cumulative Preferred Shares, par value \$10 per share; and (d) to pay a Common Share dividend of 1,840 Common Shares, par value \$10 per share, to the holders of its outstanding 460 Common Shares and to transfer \$18,400 from earned surplus and paid-in surplus to stated capital.

Application
No. 30669

O P I N I O N

In this application, the Public Utilities Commission is asked to make an order authorizing Washington Water and Light Company to issue \$18,400 par value of its common stock as a stock dividend; to issue at par \$61,000 par value of 5% cumulative preferred stock; to execute a loan agreement with Pacific Mutual Life Insurance Company; to execute a mortgage of chattels and real property; and to issue a note in the principal amount of \$225,000. The purpose of the proposed stock and note issues, according to the application, is to provide for the refunding of presently outstanding indebtedness and to improve applicant's financial position.

Applicant is engaged as a public utility in the distribution of water in and about the towns of Broderick, Bryte and West Sacramento in Yolo County. In financial statements filed with the Commission it has reported operating revenues of \$15,175.66 in 1946, of \$24,202.41 in 1947, of \$41,109.90 in 1948 and of

\$46,950.50 during the first eight months of 1949, with net income of \$1,668.90 in 1946 and \$2,061.41 in 1947, net loss of \$4,413.98 in 1948, and net income of \$7,180.83 for the first eight months of the present year. During this period its active service connections increased from 341 at the beginning of 1946 to 1,513 and its reported investment in fixed capital from \$55,096.40 to \$381,397.91.

As of August 31, 1949, applicant reports its assets and liabilities as follows:

<u>Assets</u>		
Current assets		
Cash	\$ 445.05	
Accounts receivable	<u>7,553.26</u>	
Total current assets		\$ 7,998.31
Fixed assets		
Cost	381,397.91	
Depreciation reserve	<u>68,741.94</u>	
Net fixed assets		312,655.97
Other assets		1,400.15
Deferred charges		<u>652.78</u>
Total		<u>\$322,707.21</u>

<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 15,975.17	
Consumers' deposits	1,224.95	
Consumers' advances for construction	3,458.47	
Accrued liabilities	<u>1,254.82</u>	
Total current liabilities		\$ 21,913.41
Notes payable to directors		43,500.00
Note payable to Capital National Bank		218,000.00
Capital stock - common		4,600.00
Surplus		<u>34,693.80</u>
Total		<u>\$322,707.21</u>

A review of the application and of the financial statements shows that applicant has financed its construction costs, in part, through the issue of notes and accounts payable and the use of earnings. The notes to directors were issued during the last three years and are payable one day after dates of issue with interest at the rate of 6% per annum. The note to the bank was issued on February 3, 1949, for a term of one year with interest

at the rate of 4% per annum. Since the date of the balance sheet the notes to directors have increased to \$44,500 and the note to the bank has decreased to \$215,000.

Applicant now desires to pay all its outstanding notes, and approximately \$12,000 of its accounts payable which were reported incurred for construction work, and to provide for additions to its plant. It reports that, provided it issue and sell \$61,000 par value of its 5% cumulative preferred stock, Pacific Mutual Life Insurance Company has agreed to lend to it the sum of \$225,000 to be represented by a note bearing interest at the rate of 4% per annum and payable in monthly installments of \$1,000 for a period of five years commencing November 1, 1949, and thereafter in annual installments of \$5,625. The payment of the note will be secured by a mortgage of chattels and real property. Applicant has agreed to pay a finder's fee to Wagenseller & Durst of \$4,500 in connection with the negotiations for the loan.

A copy of the agreement with Pacific Mutual Life Insurance Company has been filed in this proceeding as Exhibit "D", a copy of the proposed note as Exhibit "E", and a copy of the proposed mortgage as Exhibit "F". Under the terms of the proposed mortgage applicant agrees, among other things, that until the note and interest thereon and all other required payments shall have been made, it will not declare any cash dividends on its shares of stock of any class except out of net earnings accumulated subsequent to August 31, 1949, after deducting therefrom the greater of the following, i.e., 25% of its net earnings for the twelve months' period immediately preceding the date of payment of such dividends or the amount required to be paid in such twelve months' period on account of the principal of the note. Applicant reports that its expansion program has been substantially completed and that in its opinion it should be able to meet its payments under the terms of

the mortgage.

As to the proposed issue of preferred stock, shares in the aggregate amount of \$44,500 will be issued in exchange for notes of like amount and the remainder, \$16,500 par value, will be sold to applicant's officers at par. As to the proposed issue of common stock it is intended to apply such shares to the reimbursement of the treasury for earnings invested in assets and thereafter to distribute them, as a dividend, to the holders of the presently outstanding stock. The effect of such issue is to transfer \$18,400 from surplus to capital stock account and to finance permanently earnings of that amount.

O R D E R

The Public Utilities Commission having considered the above entitled matter and being of the opinion that a public hearing thereon is not necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for through the issue of 1,820 shares of common stock, 6,100 shares of preferred stock and a note for \$225,000, is reasonably required by Washington Water and Light Company for the purposes specified herein and that the expenditures, other than those for expenses in connection with the issue of said note, are not, in whole or in part, reasonably chargeable to operating expense or to income. therefore,

IT IS HEREBY ORDERED that Washington Water and Light Company after the effective dates hereof and on or before December 31, 1949 may:-

1. Execute a loan agreement with Pacific Mutual Life Insurance Company in, or substantially in, the same form as that filed in this proceeding as Exhibit "D";

2. Issue a note in the principal amount of \$225,000 and execute a mortgage to secure the payment thereof, said note and said mortgage to be in, or substantially in, the same form as those filed in this proceeding as Exhibit "E" and Exhibit "F" respectively;

3. Issue and sell, as fully paid, at par, 6,100 shares of its 5% cumulative preferred stock; and

4. Issue 1,840 shares of its common stock to reimburse its treasury and thereby transfer \$18,400 from surplus to stated capital.

IT IS HEREBY FURTHER ORDERED that Washington Water and Light Company shall use the proceeds to be received through the issue of said note for \$225,000 and said 6,100 shares of preferred stock to pay expenses incident to the issue of said note, to pay outstanding indebtedness referred to in this application, to improve and maintain its service and to finance the cost of additions and betterments to its plant.

IT IS HEREBY FURTHER ORDERED that Washington Water and Light Company shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

IT IS HEREBY FURTHER ORDERED that the authority herein granted to execute an agreement, to issue a note, and to execute a mortgage shall become effective when Washington Water and Light Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$225.00. The authority herein granted to issue shares of common and preferred stock will become effective twenty (20) days from the date hereof.

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Dated at San Francisco, California, this 25th day
of October 1949.

R. Z. Indragan
Justin J. Casner
James H. Russell
Harold P. Hula
Harold P. Hula
Commissioners

