

ORIGINAL

Decision No. 44024

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of)

CITY WATER COMPANY OF BANNING,)
a California Corporation, for an)
Order Authorizing it:)

(1) To purchase 1174.035)
shares of the Capital Stock of the)
Corporation, for the sum of)
\$293,508.75;)

Application
No. 30866

(2) To issue and sell \$350,000)
First Mortgage and Collateral Trust)
Bonds, 3½% Series A, due 1974, and)
apply proceeds to the purchase of)
said stock, retirement of unsecured)
obligations and make certain capital)
improvements.)

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Sarau, Adams, Neblett & Sarau, by
Donald G. Adams and Kenneth B. Husby,
for applicant.

O P I N I O N

City Water Company of Banning, hereinafter referred to as the City Company, has filed this application with the Commission for authority to issue and sell \$350,000 of First Mortgage and Collateral Trust Bonds, 3½% Series A, due 1974, and to use the proceeds to purchase 1,174.035 shares of the stock of Banning Water Company for the sum of \$250 a share, and for other purposes. In this decision, Banning Water Company will be referred to as the Mutual Company.

A public hearing in this proceeding was held in Banning on March 30, 1950. The Commission has received no protest to the granting of the application.

In considering this matter, a brief historical reference to the operations of both companies is desirable. According to the application, the Mutual Company was organized in June, 1884, for the purpose, primarily, of supplying water for irrigation purposes to its stockholders. It acquired approximately 3,000 acres of water-shed and water-bearing lands in Banning Canyon, installed and equipped a series of wells and constructed collecting aqueducts and a transmission and distribution system. It obtained, and now obtains, its supply by means of diversion of surface flow and from its wells and, in addition, from waters of the South Fork of the White-water River diverted by California Electric Power Company for the operation of its power plants in Banning Canyon. The Mutual Company issued, and now has outstanding, 3,275.965 shares of stock.

It appears that the Mutual Company also undertook the delivery of water for domestic purposes in Banning to others than its stockholders. Upon the adoption of the constitutional amendment in 1911 creating the Railroad Commission, it reports that in order to continue as a mutual company it found it necessary to discontinue the operation of supplying domestic water to non-stockholders. Accordingly, it caused the City Company to be organized in February, 1913, and transferred to it, its domestic distribution system along with 120 shares of its stock, a number deemed necessary at that time to provide the City Company with an adequate supply of water. Subsequently, the City Company acquired 7.7 shares from other stockholders, or upon sales for non-payment of assessments, and now holds 127.7 shares of the Mutual Company's stock. The City Company issued and now has outstanding 3,148.265 shares of its own stock which are held by the remaining shareholders of the Mutual Company.

At the outset, it was the intent of the Mutual Company to supply water to its stockholders, including the City Company, on a

pro rated basis in accordance with the number of shares held by each stockholder. However, because of the growth of the domestic system the actual amount of water delivered to the City Company now is said to be greatly in excess of its pro rata entitlement based on the number of shares of stock it now owns. The record shows that it holds approximately 4% of the outstanding mutual stock but that it has been receiving, during the last few years, in excess of 30% of the water developed or produced by the Mutual Company. The following data taken from the annual reports of the City Company are indicative of the growth of the domestic system during the last ten years:

	<u>Investment</u> <u>Dec. 31</u>	<u>Operating</u> <u>Revenues</u>	<u>Net Oper.</u> <u>Revenues</u>	<u>No. of</u> <u>Connections</u>	<u>Cubic feet</u> <u>of Water</u>
1940	\$132,465	\$32,081	\$ 8,318	1214	31,221,000
1941	133,979	27,943	3,354	1231	25,366,100
1942	134,066	32,154	6,925	1305	32,090,600
1943	135,593	37,189	8,557	1352	40,036,900
1944	137,919	38,437	9,341	1389	42,302,900
1945	158,652	43,331	12,565	1477	49,979,200
1946	180,048	47,245	11,841	1759	52,111,800
1947	187,622	54,198	13,159	1989	57,746,300
1948	200,544	58,582	9,373	2115	61,485,600
1949	228,434	63,159	10,546	2196	67,378,400

It is reported that the increased domestic demands, especially during the past several dry years, have so reduced the volume of water available for irrigation purposes as to cause loss and damage to the irrigating stockholders of the Mutual Company, and that an expansion of the production facilities is imperative to meet the demands of both domestic and irrigation users. It is estimated that the minimum safe yield to take care of the needs of both classes of consumers is 445 minor's inches and that of this amount 130 inches, or about 30%, is the required supply for the City Company. The record shows that in 1949, the City Company had need for 111 inches and that it should have need for the entire 130 inches by 1952.

In order to bring the City Company's holdings of mutual stock up to the number of shares which will entitle it to 130 miner's inches on a pro rata basis, the Mutual Company proposes to issue to it 1,174.035 shares of its stock for the sum of \$250 each, or for an aggregate amount of \$293,508.75. At the conclusion of this financing the Mutual Company will have outstanding 4,450 shares of which 1,301.735, or approximately 30%, will be held by the City Company and will entitle it to approximately 130 inches on the proposed distribution basis, applicable to all shareholders, of one inch for each ten shares. The Mutual Company proposes to use the proceeds from the sale of its stock as follows:

To extend its production facilities so as to produce 445 miner's inches	\$140,000.00
To pay short-term loans	70,000.00
To pay outstanding bonds	24,000.00
To loan to City Company to enable it to make improvements	26,000.00
To meet the cost of further improvements	<u>33,508.75</u>
Total	<u>\$293,508.75</u>

The City Company does not have on hand sufficient funds to purchase the 1,174.035 shares of stock and to finance the cost of needed improvements. Accordingly, it has made tentative arrangements to issue and sell \$350,000 of bonds, at par plus accrued interest, to the Northwestern Mutual Life Insurance Company, of Milwaukee, and to use the proceeds, together with other funds, for the following purposes:

To purchase the 1,174.035 shares	\$293,508.75
To pay outstanding bank loans	40,000.00
To pay for 1,720 feet of pipe, a 200,000 gallon tank and floats and valves	13,590.00
To pay expenses incident to the issue and sale of the bonds	<u>3,000.00</u>
Total	<u>\$350,098.75</u>

In addition, the City Company is proceeding with the construction of a 1,000,000 gallon storage tank at an estimated

cost of approximately \$26,000 to be financed with moneys to be borrowed from the Mutual Company.

The proposed bonds will be dated as of December 1, 1949, will bear interest at the rate of $3\frac{1}{2}\%$ per annum and will be due December 1, 1974. The payment of the bonds will be secured by a trust indenture constituting a first lien on its properties, including the shares of mutual stock it owns, which will provide, among other things, for annual sinking fund payments to retire, at par, \$14,000 of bonds on December 1 of each year beginning in 1950.

A review of the record clearly indicates the need for the development of additional water, not only for irrigation users on the lines of the Mutual Company but also for domestic users served by the City Company. It does not appear to be unreasonable to expect the City Company to acquire and hold the number of shares of stock necessary to yield it, on a uniform pro rata basis, the quantity of water necessary for it to meet the demands of its customers.

In connection with the purchase price to be paid by the City Company for the shares of stock, as here proposed, a considerable amount of testimony and evidence was introduced bearing on the prevailing price of water and water-bearing lands elsewhere in southern California. Upon the record as developed in this proceeding it is concluded that the application should be granted. The Commission is making no finding of the value of the stock of the Mutual Company and reserves the right to consider this matter de novo should it become an issue in any future proceeding.

The application shows that certain real property, formerly used for agricultural purposes and supplied with irrigation water,

has been subdivided for residential purposes and thereafter supplied by the City Company with domestic water, with no additional shares of mutual stock being acquired by the City Company. A map filed in this proceeding as Exhibit B shows that the areas served with irrigation water are adjacent to, and in some cases are surrounded by, territory supplied with domestic water and it appears that additional agricultural lands in the future may be subdivided for residential purposes. The City Company forthwith should formulate a policy whereby additional subdivisions, now receiving water for irrigation purposes by virtue of stock ownership, upon coming on to its lines for domestic service should bring with them an appropriate number of shares of stock of the Mutual Company to assure the receiving by the City Company of an adequate supply of additional water to meet the additional demand for domestic use to be caused by such new subdivisions.

The City Company has not yet filed with the Commission a copy of the proposed trust indenture to be executed to secure the payment of its bonds. The authority herein granted to issue such bonds will not become effective until the City Company has filed such an indenture and has received a supplemental order authorizing its execution.

O R D E R

A public hearing having been held on this application, the Commission having considered the matter and being of the opinion that the money, property or labor to be procured or paid for through the issue of \$350,000 of bonds is reasonably required by City Water Company of Banning for the purposes specified herein, and that the

expenditures for said purposes, other than accrued interest and expenses incident to the issue and sale of said bonds, are not, in whole or in part, reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED as follows:

1. City Water Company of Banning, after the effective date hereof and on or before September 30, 1950, may issue and sell not exceeding \$350,000 of its First Mortgage and Collateral Trust Bonds, 3½% Series A, due 1974, at par plus accrued interest.

2. City Water Company of Banning shall use the proceeds, other than accrued interest, to be received from the issue and sale of said bonds to pay for 1,174.035 shares of stock of Banning Water Company, to pay bank loans of \$40,000, to finance the cost of improvements and to pay expenses incident to such issue and sale, all as set forth in this application. The accrued interest may be used for general corporate purposes.

3. The authority herein granted will become effective when City Water Company of Banning has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is three hundred fifty (\$350.00) dollars, and when the Commission by supplemental order has authorized the company to execute a trust indenture to secure the payment of said bonds.

4. City Water Company of Banning shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

Dated at San Francisco, California, this 11th day
of April, 1950.

Q. E. Anderson
Justin S. Quince
Wesley Powell
Harold H. Hild
Kenneth L. Potter
Commissioners

