

ORIGINAL

Decision No. 49110

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of
PALOS VERDES WATER COMPANY, a
California corporation,

For an Amendment to its Rule No. 20-B,
so as to permit the issuance of Junior
Preferred stock instead of cash, at
the option of Applicant, in payment of
the amount to be deposited pursuant to
a proposed Refund Agreement between
Applicant and MacArthur Heights, Inc.,
a California corporation; authorizing
an Agreement between Applicant and
MacArthur Heights, Inc., to that effect;
and, subject to the amendment of the
Articles of Incorporation of Applicant
so as to authorize such stock, for
permission to issue said stock for that
purpose to said MacArthur Heights, Inc.

Application
No. 34696

O P I N I O N

Palos Verdes Water Company has filed this application for authorization to issue shares of its 3% cumulative junior preferred stock in payment of advances for construction and for approval of an agreement with MacArthur Heights, Inc., the owner and developer of certain real property as hereinafter set forth.

Applicant is a California corporation engaged in operating a public utility water system serving approximately 2600 installations in the Palos Verdes Hills in the County of Los Angeles, including the City of Palos Verdes Estates and a part of the unincorporated area of the county, and having a connection with the Metropolitan Water District of Southern California. It reports the original cost of its properties and equipment as of July 31, 1953, at \$1,296,427.63 and in its balance sheet as of that date sets forth its investment in its fixed and other assets and its sources of funds as follows:

<u>Assets</u>		
Fixed assets -		
Intangible capital	\$ 6,663.34	
Land	24,237.46	
Buildings and equipment	1,265,526.83	
Sub-total	-1,296,427.63	
Construction work in progress	77,653.61	
Less: depreciation reserve	(283,147.94)	
Net fixed assets		\$1,090,933.30
Other investments		4,841.65
Current and prepaid assets		170,051.84
Total		<u>\$1,265,826.79</u>

<u>Liabilities and Capital</u>		
Fixed liabilities (long-term debt)		\$ 292,949.05
Current liabilities		36,534.34
Construction advances and contracts		378,812.57
Total liabilities		708,295.96
Contributions		85,355.04
Preferred stock - 5½%		45,180.00
Common stock		506,700.00
Deficit		(79,704.21)
Total		<u>\$1,265,826.79</u>

For the first seven months of 1953, applicant reported net profit of \$26,222.73.

It appears that applicant was organized in 1924, that its articles of incorporation as amended from time to time presently provide for an authorized capital stock of \$900,000 divided into 7,500 shares of 5½% cumulative preferred stock and 37,500 shares of common stock of the par value of \$20 each, and that now it is taking steps to increase its authorized capital and to provide for a new series of 3% preferred shares, as follows:-

	<u>Number</u>	<u>Par Value</u>	<u>Total Par Value</u>
Preferred - 5½%	7,500	\$ 20	\$ 150,000
Junior preferred - 3%	5,000	100	500,000
Common	37,500	20	750,000
Total	<u>50,000</u>		<u>\$1,400,000</u>

It is contemplated that the holders of the preferred and common shares shall have equal voting rights but that the junior preferred shares shall be non-voting.

The application shows that applicant has entered into an agreement with MacArthur Heights, Inc. looking toward the installation of facilities to serve Tract 16726 in the County of Los Angeles which is adjacent to applicant's service area, and which is now about to be subdivided, and that the estimated total cost of such facilities is \$107,540, as shown in some detail in this proceeding. It appears that applicant is of the opinion it would be burdensome and economically unsound to finance the installation costs by means of refundable advances and that accordingly it proposes to issue, and MacArthur Heights, Inc. has agreed to accept, shares of the junior preferred stock, with its proposed terms and conditions, in repayment of such costs.

Under the terms of the agreement the subdivider will deposit with applicant the sum of \$107,540 upon demand. Thereafter, upon completion of the installation, applicant at its option may issue its shares of junior preferred stock equal in par value to the actual cost, with cash payment being made in lieu of the issue of fractional shares, or may make payment in cash. The agreement further specifies that the subdivider shall be entitled to additional shares of stock, in a total amount not specified at this time, for each consumer attached to the lines, it being provided, however, that in no event shall such subdivider become entitled to any refund after the expiration of ten years from the date of installation of the facilities or to refunds exceeding the total amount of the deposit.

The proposed issue of shares of stock will relieve applicant of outlays of cash in the future and will improve its financial structure by the addition of a substantial volume of permanent low interest bearing junior capital. For these reasons we are of the opinion that an order should be entered with respect to such shares. In making an order at this time however, we will limit the authorization to the amount of the estimated expenditures set forth in the

application and will provide for the issue of not exceeding \$107,540 par value of stock. In the future, if applicant finds it necessary or advisable to make additional issues, it should file an appropriate application setting forth the exact number of shares and its reason and justification for such additional financing.

The order herein made for applicant to issue shares of stock with the terms and characteristics as here proposed is based upon the representations made in this particular proceeding. It is a permissive order only and is intended to permit the issue of stock to finance the cost of acquiring and constructing certain water works facilities. Applicant, if it so desires, may refund the subdivider's advances for such facilities in accordance with its filed rules and regulations or it may discharge them through the issue of shares of stock to the extent authorized. In our opinion there is no necessity for an order approving the agreement with MacArthur Heights, Inc.

O R D E R

The Commission having considered the above entitled matter and being of the opinion that a public hearing is not necessary, that the money, property or labor to be procured or paid for by the issue of the shares of stock herein authorized is reasonably required for the purpose specified herein, that the expenditures for said purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that the application should be granted to the extent indicated herein; therefore,

IT IS HEREBY ORDERED as follows:

1. Palos Verdes Water Company may issue not exceeding \$107,540 par value of its 3% cumulative junior preferred stock, at par, in payment of advances by MacArthur Heights, Inc. used for the construction and installation of the facilities referred to in this proceeding.

2. Applicant 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.

3. The authority herein granted will become effective when applicant has filed with the Commission a certified copy of an amendment to its articles of incorporation in substantially the same form as the proposed amendment filed in this proceeding as Exhibit D.

Dated at San Francisco, California, this 22nd day of September, 1953.

R. E. [Signature]
President

[Signature]

[Signature]

Commissioners