

ORIGINAL

Decision No. 49620

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
of	:	
DEL ESTE WATER COMPANY,)	
	:	Application
a corporation, for an order auth-)	No. 35052
orizing it to issue its preferred	:	
and common stock.)	
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O P I N I O N

Del Este Water Company, a California corporation, has filed this application for authorization to issue 1,250 shares of its 6% cumulative preferred stock, of the par value of \$100 each and of the aggregate par value of \$125,000, and to sell said shares, at par for cash, for the purpose of paying indebtedness and of financing the cost of property. It also requests authority to issue 3,712 shares of \$25 par value common stock in exchange for the 928 shares of \$100 par value common stock currently outstanding.

Applicant is engaged in the business of supplying water to domestic, commercial and industrial consumers in the vicinity of the cities of Modesto and Turlock and the towns of Empire, Salida and Waterford. It has reported its revenues and expenses as follows:

	<u>1951</u>	<u>1952</u>	<u>10 Months of 1953</u>
Operating revenues	\$200,413	\$245,042	\$222,216
Operating expenses	<u>146,860</u>	<u>188,068</u>	<u>163,794</u>
Utility operating income	<u>\$ 53,553</u>	<u>\$ 56,974</u>	<u>\$ 58,422</u>

Applicant's balance sheet shows its assets, liabilities and net worth as of October 31, 1953, as follows:

Assets

Plant and property	\$1,119,735.68	
Less: Depreciation reserve	<u>216,059.89</u>	\$ 903,675.79
Construction work in progress		29,568.61
Current assets -		
Cash	24,207.29	
Accounts receivable	16,397.75	
Notes receivable	1,132.00	
Material and supplies	<u>17,720.13</u>	59,457.17
Other assets		<u>19,212.64</u>
Total		<u>\$1,011,914.21</u>

Liabilities and Net Worth

Fixed liabilities -		
Mortgage payable	\$ 388,000.00	
Subdividers' advances	<u>115,196.38</u>	\$ 503,196.38
Current liabilities -		
Notes payable	50,000.00	
Accounts payable	9,715.08	
Accrued interest and taxes	34,152.63	
Consumers' deposits	282.05	
Service billed in advance	<u>4,345.64</u>	98,495.40
Construction donations		<u>52,563.82</u>
Net worth -		
Capital stock	92,800.00	
Paid in surplus	59,700.00	
Earned surplus	<u>205,158.61</u>	<u>357,658.61</u>
Total		<u>\$1,011,914.21</u>

The preceding statement shows that as of October 31, 1953, applicant was indebted to subdividers, on account of construction advances, in the amount of \$115,196.38 and that it had outstanding \$50,000 of notes payable to banks. Applicant also reports that its construction program for the year 1954 contemplates the expenditure of \$75,132.50 for capital additions.

In order to provide funds with which to repay its bank loans, to repay in part its liability for subdividers' advances and to finance in part its 1954 construction program, applicant proposes to issue and sell at par 1,250 shares of its 6% cumulative preferred stock, par value of \$100 per share, having an aggregate par value of \$125,000. The initial offering of the preferred stock is to be made

to existing shareholders and such portion of the offering not taken by such shareholders will be sold to other persons.

Applicant asserts it is unable at the present time to state the extent to which it will repay outstanding subdividers' advances. It proposes, in connection with determining the amounts to be repaid them, to base its determination upon the total amounts, properly discounted, which reasonably would be expected to be refunded to such subdividers pursuant to their agreements. Any amounts derived from the sale of the preferred stock which are not used to repay bank loans and subdividers' advances will be used to finance in part applicant's 1954 construction program.

Applicant currently has outstanding 928 shares of common capital stock having a par value of \$100 per share and an aggregate par value of \$92,800. It has not been applicant's practice to distribute its net income as dividends, with the result that the book value per share of common stock, as of October 31, 1953, amounted to \$442.05, if construction donations were considered as a part of net worth, and to \$385.41 if construction donations were not so considered.

Under the provisions contained in applicant's proposed amended articles of incorporation each share of stock is to be entitled to one vote. In order to preserve to the holders of the 928 common shares voting rights approximately equal to the proportionate equity investment, applicant proposes to split said 928 shares on a four-for-one basis, so that following said split the former holders of applicant's common stock, par value of \$100 per share, will be the holders of four shares of applicant's common stock, par value of \$25 per share, for each \$100 share now held. It has not as yet filed a copy of its amended articles of incorporation with the Secretary of

State and such authority as may be granted by this decision will, of course, be conditioned to the filing of the amendment to the articles with the proper agencies and the submission of a certified copy of such filing with this Commission.

The Commission has considered this application and is of the opinion that applicant will have need for the funds to be derived from the sale of its preferred stock, that the issue and sale of the preferred shares and the exchange of the common shares, as proposed, should be authorized, and 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 by applicant for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

Accordingly, the Commission will enter an order granting the application.

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 and that the application should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Del Este Water Company may issue and sell, on or before September 30, 1954, not exceeding 1,250 shares of its 6% cumulative preferred stock, at par for cash, for the purposes set forth in this application.

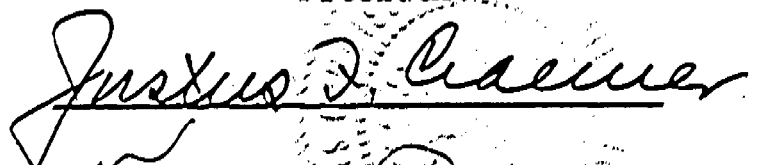
2. Del Este Water Company may issue 3,712 shares of its common capital stock, \$25 par value, in exchange for the 928 shares of capital stock, \$100 par value, currently outstanding, such exchange to be made on the basis of four shares of the \$25 par value common stock for each share of the \$100 par value common stock.

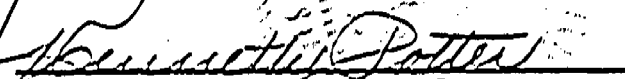
3. Del Este Water Company shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

4. The authority herein granted will become effective when applicant has filed with the Commission a certified copy of its amended articles of incorporation.

Dated at San Francisco, California, this 2nd day of February, 1954.


President


Justus D. Calver


Kenneth L. Potter


John L. H. Hill


Commissioners