

ORIGINAL

Decision No. 51191

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 permission to (1) sell and issue)
bonds for cash, and (2) sell and)
issue preferred stock for cash, and)
(3) issue common stock for cash and)
in satisfaction of indebtedness, and)
(4) enter into an agreement with)
Pacific Mutual Life Insurance Com-)
pany and New England Mutual Life In-)
surance Company concerning the sale)
of bonds, and (5) execute and deliver)
to California Trust Company an in-)
denture of mortgage and deed of trust.)
-----)

Application
No. 36726

O P I N I O N

In this application the Commission is asked to make an order authorizing Palos Verdes Water Company -

1. To execute a purchase agreement with New England Mutual Life Insurance Company and Pacific Mutual Life Insurance Company; and,

2. To execute an indenture of mortgage and deed of trust and to issue and sell \$1,500,000 in principal amount of first mortgage bonds; and,

3. To issue and sell \$500,000 par value of 5½% preferred stock and \$100,000 par value of common stock, at par for cash, and to use the proceeds, along with proceeds from the issue and sale of said bonds, for the purpose of paying indebtedness, of reimbursing the treasury, and of financing construction costs; and,

4. To issue common stock of an aggregate par value of \$127,173.19 in discharge and cancellation of advances by and borrowings from Palos Verdes Corporation.

Applicant, a California corporation, was organized on March 15, 1924, and undertook to provide service as a public utility water company in the Palos Verdes Hills in the County of Los Angeles. Up to the close of 1954 it had invested \$1,685,871 in its property and equipment and had extended its lines to serve 3,397 customers. A summary statement of its assets, liabilities and capital reflecting its financial position as of December 31, 1954, is as follows:

Assets

Fixed capital -		
Intangible capital	\$	7,102
Land		24,014
Buildings and equipment		1,495,233
Construction work in progress		159,522
Subtotal		<u>1,685,871</u>
Less-depreciation reserve		<u>324,203</u>
Net fixed capital		\$1,361,668
Other investments		581
Current and prepaid assets		<u>117,330</u>
	Total	<u>\$1,479,579</u>

Liabilities

Fixed liabilities (long-term debt)	\$	282,000
Current liabilities		86,448
Consumers' advances for construction		485,300
Contributions		100,493
Preferred stock--5½%		51,320
Common stock		506,700
Deficit		<u>(32,682)</u>
	Total	<u>\$1,479,579</u>

The foregoing balance sheet shows that applicant has financed itself in part with long-term debt of \$282,000, since reduced to \$273,000, in part with consumers' advances for construction and in part through the issue and sale of shares of common and preferred stock. The long-term debt, originally in the amount of \$300,000, is represented by a note in favor of Pacific Mutual Life Insurance Company which was issued under authorization granted by Decision No. 44080, dated April 25, 1950, in Application No. 31272.

Although the balance sheet shows a deficit of \$32,682 at the close of 1954, it appears that the amount represented losses incurred in earlier years. More recently, applicant has reported favorable results of operations, a summary of its experience during the last five years being as follows:

	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Operating Income</u>	<u>Net In- come Charges</u>	<u>Net Income</u>
1950	\$150,323	\$125,178	\$25,145	\$ 5,004	\$20,141
1951	192,588	139,782	52,806	11,611	41,195
1952	204,828	164,067	40,761	12,320	28,441
1953	289,597	232,275	57,322	14,137	43,185
1954	296,700	238,450	58,250	17,606	40,644

It appears that applicant's territory is now being developed and that applicant is faced with the necessity of increasing its investment to provide pumping, storage and distributing facilities for the entire Palos Verdes Peninsula. Its initial program calls for the expenditure of \$1,827,000 for a new 25,000 GPM pumping station at the Metropolitan Water District outlet, a 32-inch pipeline from the pumping station to applicant's existing reservoir, additional storage facilities of 7,000,000 gallons capacity, and approximately 39,100 feet of pipelines. A summary of applicant's capital requirements and the sources of funds to meet the requirements is as follows:

Requirements

Payment of existing long-term debt	\$ 273,000
Pipelines	546,200
Storage facilities	429,000
Pumping plant	115,000
Electrolytic protection	57,500
Engineering, overhead and contingencies	91,800
Financing expense	17,500
Land and right-of-way	70,000
16-inch line to southeast portion of area	200,000
Miscellaneous improvements to present system	<u>300,000</u>
Total	<u>\$2,100,000</u>

Sources of Funds

First mortgage bonds	\$1,500,000
Preferred stock	500,000
Common stock	<u>100,000</u>
Total	<u>\$2,100,000</u>

Applicant reports that it has negotiated and plans to enter into a purchase agreement with New England Mutual Life Insurance Company and Pacific Mutual Life Insurance Company by the terms of which it will be entitled to obtain an aggregate of \$1,500,000 by the sale of its first mortgage bonds. Under the terms of the agreement the purchasers are obligated to purchase the first \$600,000 of bonds on the basis of applicant's present net worth, to purchase the next \$500,000 upon the issue of additional preferred or common stock by applicant in the amount of \$300,000, and to purchase the final \$400,000 of bonds upon the issue by applicant of an additional \$300,000 of preferred or common stock. It is required that said sales of stock be for cash, except that applicant may issue \$62,017 thereof to cancel and discharge an indebtedness of Rancho Mutual Water Company which applicant may assume in the event it acquires the assets of that company.

The \$1,500,000 thus to be borrowed will be represented by applicant's first mortgage bonds, Series A of 1975, bearing interest at the rate of $4\frac{1}{2}\%$ per annum, which interest, however, may be reduced after February 1, 1960, to 4%. The payment of the bonds will be secured by an open-end indenture mortgage and deed of trust on applicant's properties.

Applicant also proposes to issue additional common stock, at the par value thereof, in the amount of \$117,748 in discharge and cancellation of advances made by Palos Verdes Corporation for

construction purposes, and to issue additional common stock in the amount of \$9,425.19 in discharge of a promissory note issued September 15, 1954, to Palos Verdes Corporation. The interest of Palos Verdes Corporation in said indebtedness is being transferred, in connection with the winding up and dissolution of its affairs, to Rancho Palos Verdes Corporation and to Capital Company, the holders of its outstanding stock.

At the conclusion of the financing applicant's outstanding long-term debt and capital stock will be as follows:

Long-term debt	\$1,500,000	54%
Preferred stock	551,320	20
Common stock	<u>733,873</u>	<u>26</u>
Totals	<u>\$2,785,193</u>	<u>100%</u>

From a review of the application it appears that applicant will have need for additional funds if it is to extend its facilities to meet the development of its service area and that the issue of the bonds and shares of stock, under the terms and conditions set forth in this application, should be authorized.

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 application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the bonds and shares of stock herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:

1. Palos Verdes Water Company, on or after the effective date hereof and on or before December 31, 1955, may execute a purchase agreement with New England Mutual Life Insurance Company and Pacific Mutual Life Insurance Company and an indenture of mortgage and deed of trust, which instruments shall be in, or substantially in, the same form as those filed in this proceeding as Exhibit C and Exhibit D, respectively.

2. Palos Verdes Water Company, on or after the effective date hereof and on or before December 31, 1955, may issue and sell not exceeding \$1,500,000 in principal amount of first mortgage bonds at not less than their face amount plus accrued interest, and not exceeding \$500,000 par value of 5½% preferred stock and \$100,000 par value of common stock at not less than par, for cash, and use the proceeds for the purposes set forth in this application. The accrued interest from the sale of the bonds shall be used for such purposes or for general corporate purposes. Applicant may issue and deliver not exceeding \$62,017 par value of said common stock in cancellation of indebtedness it may assume in the acquisition of the properties of Rancho Mutual Water Company.

3. Palos Verdes Water Company may issue its common stock in the aggregate par value of not exceeding \$127,173.19 in discharge and cancellation of obligations representing advances by Palos Verdes Corporation for construction and of a note in the principal amount of \$9,425.19 in favor of said Palos Verdes Corporation.

4. Palos Verdes 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.

5. The authority herein granted will become effective when Palos Verdes Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,113.50.

Dated at San Francisco, California, this 15th day of March, 1955.

Robert E. Mitchell
President

Justin J. Calver

Rayle Luterer

Montgomery Apple

Commissioners

