

ORIGINAL

Decision No. 51501

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 \$70,000 to Pacific Mutual Life Insurance Company; (b) to issue its amended promissory note in the amount of \$225,000 to Pacific Mutual Life Insurance Company; (c) to execute a Third Supplemental Indenture supplemental to its Mortgage of Chattels and Real Property dated as of November 15, 1949; (d) to execute an agreement for the issuance and delivery of its Common Shares in the fair value of \$132,004.90 in satisfaction of an indebtedness to Turner and Williams, a partnership, and Westgate Investment Co., Inc. and River Oaks Properties, both California corporations; (e) to issue and sell, at par, 1,300 of its Common Shares, par value \$10 per share.

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OPINION

In this proceeding Washington Water and Light Company seeks authorization to execute a supplemental indenture, to issue notes in the aggregate face amounts of \$295,000 and common stock of the aggregate par value of \$13,000, and to execute and enter into certain agreements.

Applicant is a California corporation engaged as a public utility in the distribution of water in a portion of the County of Yolo. It reports that there has been a rapid growth of population in its service area which has placed it in a position where it must supplement its present water system and must make additions to its pumping equipment, storage facilities and pipe lines. It asserts that during 1954 it was compelled to restrict irrigation service in

order to insure adequate domestic deliveries and it is of the opinion that its present system will not be adequate for the heavy demand which is anticipated during 1955.

In order to avoid interruptions in delivery of water and to provide facilities to meet the demands of its customers, applicant has undertaken a construction program, at a cost of approximately \$70,000, consisting of one new pumping station, 3,000 feet of 16-inch transmission main, one 500,000-gallon storage tank with booster and attachments, and miscellaneous water treatment equipment. The application indicates that the company does not have sufficient funds to meet its capital needs and that it is arranging to borrow \$70,000 from Pacific Mutual Life Insurance Company.

At the close of February of this year applicant's net investment in fixed capital was \$506,371, an amount which had been provided from the following sources:

Long-term debt	\$161,000
Advances for construction	187,835
Preferred stock	105,000
Common stock equity	<u>56,155</u>
Total	<u>\$509,990</u>

The long-term debt consists of a 4% secured note, originally in the amount of \$225,000, which had been issued to Pacific Mutual Life Insurance Company under authorization granted by Decision No. 43435, dated October 25, 1949, as amended by Decision No. 45605, dated April 24, 1951. The note has been reduced by installment payments at the rate of \$12,000 a year, leaving an unpaid balance at this time of \$161,000. The term of the note provides for a reduction of the annual payments to \$5,625 commencing November 1, 1955.

It now appears that Pacific Mutual Life Insurance Company has indicated its willingness to enter into a loan agreement providing for the advance of a further sum of \$70,000, to be secured by the existing mortgage. The borrowing will be represented by a new note bearing interest at the rate of 5% per annum and payable in semi-annual installments of \$1,500 during the years 1956 to 1960, inclusive, and thereafter in semi-annual installments of \$1,000. Applicant has further agreed to revise the terms of the existing note so as to provide for increased installment payments, with the result that the combined payment on the existing note and on the new note will be \$10,000 annually for the next five years commencing in 1956 and thereafter will be \$6,000. The revision will require the re-issue of the existing note stating the new terms.

As a further requirement of the loan agreement, applicant proposes to enter into an agreement with Turner and Williams, a partnership, Westgate Investment Co., Inc., and River Oaks Properties, a corporation, whereby it will agree to issue and deliver to the other parties to the agreement its shares of common stock in full satisfaction of advances aggregating approximately \$132,000 which have been used for construction purposes. Under the terms of the proposed agreement with Turner and Williams, et al., the amount of stock to be issued each year shall be not less than \$13,000 par value, such shares to be predicated on the filing of appropriate applications with the Commission. At this time applicant seeks authorization to issue \$13,000 par value of its stock during July of this year.

The application shows that while applicant's expansion program is substantially complete, with the exception of the additions to be made through the proposed loan, nevertheless applicant

will be faced during the next five years with the need for some capital outlay for normal development of the system and for the replacement of certain steel mains. Hence, applicant has agreed further with Pacific Mutual Life Insurance Company to set aside \$10,000 annually for the period ending December 31, 1959, for additional capital expenditures and for this period to limit cash payments of common dividends to the net earnings after December 31, 1954, remaining after first deducting the total of sinking fund requirements for the combined loan, preferred dividend payments and the said \$10,000 annual capital outlay.

Upon the conclusion of the initial transactions under the program outlined in this proceeding, applicant will have outstanding \$231,000 in principal amount of long-term notes on which its annual interest payments at the outset will be \$9,940, and \$105,000 of 5% preferred stock carrying annual dividends of \$5,250, the total of these fixed charges being \$15,190. Recently, in Decision No. 51417, dated May 3, 1955, the Commission reviewed applicant's earnings and authorized rates designed to produce a return for the year 1955 of 6.8% on a rate base of \$318,912, or net operating revenues of \$21,686. Giving effect to the issue of the initial block of \$13,000 of common stock to Turner and Williams, et al., the capital structure would consist of \$231,000 of long-term debt, \$105,000 of preferred stock, and \$69,154 of common stock equity. This relatively unbalanced structure will, of course, be improved by the subsequent annual issues of common stock to refund the remainder of the advances of \$132,000.

From a review of the proceeding we are of the opinion that applicant will have need for additional funds and that the money, property or labor to be procured or paid for by the issue of the

notes and 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.

ORDER

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. Washington Water and Light Company may execute a loan agreement with Pacific Mutual Life Insurance Company and may execute a third supplemental indenture, which agreement and indenture shall be in, or substantially in, the same form as those filed in this proceeding as Exhibit C and Exhibit F, respectively.

2. Washington Water and Light Company may issue and deliver to Pacific Mutual Life Insurance Company an amended 4% promissory note in the face amount of \$225,000 to replace the note previously issued by applicant under authorization heretofore granted by the Commission, and may issue and deliver a 5% promissory note in the face amount of \$70,000, for the purposes set forth in this proceeding, which notes shall be in, or substantially in, the same form as those filed in this proceeding in Exhibit D and Exhibit E.

3. Washington Water and Light Company may execute an agreement with Turner and Williams, a partnership, Westgate Invest-

ment Co., Inc. and River Oaks Properties relating to the cancellation of construction advances in exchange for common stock, and may issue at this time not exceeding \$13,000 par value of common stock in cancellation and extinguishment of advances.

4. Applicant 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 applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$70. The authorization herein granted shall expire if not exercised on or before October 31, 1955.

Dated at San Francisco, California, this 3/24 day of Mar, 1955.

Eric E. Mitchell
President

Paul [unclear]
William [unclear]
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Commissioners

