

Decision No. 51754

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
of SATICOY WATER COMPANY for	:	Application
authority to issue its stock.)	No. 37068
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William T. Selby, for applicant.

O P I N I O N

In this application, filed on June 23, 1955, Saticoy Water Company, a corporation, seeks authorization to issue 9,563 shares of common stock, of the par value of \$25 each and of the aggregate par value of \$239,075. It proposes to distribute 3,059 of such shares (\$76,475 par value) as a stock dividend and to sell the remaining 6,504 shares (\$162,600 par value) for cash at par.

A public hearing on the application was held before Examiner Coleman in Ventura on July 13, 1955, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant was organized on May 10, 1897, and is engaged in the distribution of water in portions of the City of Ventura and in portions of the County of Ventura lying east of the city and including the Town of Saticoy and the Town of Montalvo. Presently it has an authorized capital stock of 15,000 shares, all common, of the par value of \$25 each, of which 437 shares of the aggregate par value of \$10,925 now are outstanding. According to the testimony all the outstanding shares, except those held by directors, are owned by Alta Mutual Water Company.

It has not been applicant's practice to pay dividends on its outstanding stock. Its financial statements show that it has retained its earnings in its business and in addition, in the early stages of its development, has obtained other sums from its shareholders, designated on its balance sheet as premiums and assessments on stock, which it utilized in constructing and extending its facilities. Its assets and liabilities as of April 30, 1955, are set forth as follows:

Assets

Utility plant -		
Fixed capital	\$313,488	
Less: reserves	<u>63,533</u>	
Net utility plant		\$249,955
Other physical property		100
Current assets -		
Cash and working funds	(10)	
Accounts receivable	10,973	
Materials and supplies	11,058	
Prepayments	<u>1,130</u>	
Total current assets		<u>23,151</u>
	Total	<u>\$273,206</u>

Liabilities and Capital

Long-term debt		\$ 55,000
Current liabilities -		
Notes payable	\$ 51,000	
Payable to Alta Mutual Water Company	14,000	
Accounts payable	5,477	
Other current liabilities	<u>1,930</u>	
Total current liabilities		72,407
Advances for construction		54,333
Common stock equity -		
Common stock (437 shares)	10,925	
Premiums and assessments on stock	23,442	
Earned surplus	<u>57,099</u>	
Total common stock equity		<u>91,466</u>
	Total	<u>\$273,206</u>

A summary statement showing applicant's investment in fixed capital and number of service connections at the end of each of the last five calendar years, and its operating revenues and net profits during those years, is as follows:

	<u>Fixed Capital</u>	<u>Operating Revenues</u>	<u>Net Profit</u>	<u>Services Dec. 31</u>
1950	\$143,323	\$27,995	\$1,518	844
1951	187,475	36,528	5,282	952
1952	231,853	38,057	1,687	1,100
1953	258,474	46,011	6,890	1,065
1954	296,717	48,128	3,555	1,109

The record shows that subdivisions are occurring in applicant's service area, that those presently under way or under contemplation will bring 216 additional service connections onto applicant's lines this year, and that applicant is faced with capital expenditures to meet new demands for service requiring external financing which it seeks to accomplish through the sale of shares of stock. Before undertaking such sale, however, it desires to bring the stated value of its presently outstanding shares up to an amount more nearly reflecting the investment of the shareholders in the business. Accordingly, it proposes to issue the 3,059 shares against that portion of the investment by its shareholders which is represented on its balance sheet by premiums and assessments on stock and by retained earnings, and thereafter to distribute such shares as a dividend in the proportion of seven new shares for each share outstanding. It is reported in the application that Alta Mutual Water Company will wholly divest itself of any ownership of shares of applicant's stock by distributing such shares to its own shareholders.

In order to avoid the issue of fractional shares, applicant proposes to purchase and sell fractional amounts of less than one-half share where it will be necessary to complete full shares. It is computed that three additional shares will be required to be issued to accomplish the elimination of fractional warrants and

applicant therefore intends, and seeks authorization, to sell three shares at their par value of \$25.

Following the adjustment in the stated value of the outstanding stock, applicant intends to offer for sale the remaining 6,501 shares of stock covered by this application, of the aggregate par value of \$162,525, such offering to be made to shareholders pursuant to their preemptive right to subscribe to additional offerings, with any shares not subscribed to be offered for sale to the public. Applicant intends to use the proceeds to pay outstanding short-term loans of \$45,000 and to meet in part capital requirements of \$127,475 consisting of additional reservoir capacity, distribution lines, meters, and other improvements, as set forth in some detail in the application.

The testimony in the proceeding indicates that the offering of the additional shares will be subscribed by those presently holding the stock of Alta Mutual Water Company and that as a result of the transactions now proposed there will be no change in the management and operation of the utility. The capitalization of the equity owners' investment through the distribution of the share dividend will result merely in the transfer of \$76,475 from capital and earned surplus to stated capital. Such action, while not changing the total amount of the common stock equity, through the issue of a larger number of shares will reduce the book value from approximately \$210 a share to approximately \$27 a share and thereby enable applicant to proceed with its program of offering additional shares for sale at their par value. The sale of such additional shares will improve applicant's financial position by reducing its

outstanding liabilities and by bringing into the treasury sums required for capital expansion.

On the basis of the information presented to the Commission in this application and at the hearing, we will enter our order approving the matter.

O R D E R

A public hearing having been held on the above entitled matter and the Commission having considered the evidence and being of the opinion that the application should be granted, as herein provided, 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, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:

1. Saticoy Water Company, on or after the effective date hereof and on or before March 31, 1956, may issue not exceeding 9,563 shares of its common stock for the purposes indicated in this application. It may distribute 3,059 of such shares as a stock dividend and shall sell the remaining shares at par for cash.

2. Saticoy 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.

3. The authority herein granted will become effective on the date hereof.

Dated at San Francisco, California, this 2nd day of AUGUST, 1955.

John E. Mitchell
President

Justin S. Casner

Paula Futterman

William J. Foster

B. J. Hardy
Commissioners