

Decision No. 52562

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of

PALOS VERDES WATER COMPANY,  
a California corporation,

Application  
No. 37618

for permission to (1) sell and  
issue preferred stock for cash,  
and (2) sell and issue junior  
preferred stock for advances in  
aid of construction, and  
(3) enter into an agreement  
with Allstate Insurance Company.

O P I N I O N

In this proceeding Palos Verdes Water Company seeks  
authorization:

1. To issue and sell, at par, \$500,000 par value of its 5½% Parity Cumulative Preferred Shares to Allstate Insurance Company.
2. To issue and sell, at par, \$200,000 of its 5½% Special Preferred Shares to Title Insurance and Trust Company, as trustee, and to its customers; and,
3. To issue, at par, \$3,000,000 par value of its 3% Junior Preferred Shares in liquidation of advances in aid of construction.

Capitalization

*Am*

*Applicant*

~~Application~~ was organized in 1924 for the purpose of providing public utility water service in the Palos Verdes Hills in the County of Los Angeles. It has undertaken such service and it has reported its net investment in utility plant at \$2,320,077, as of November 30, 1955, and its capitalization ratios as of the same

date as follows:

Indebtedness -		
First mortgage 4½% bonds	\$ 600,000	26%
Notes payable	500,000	22
Advances for construction	<u>451,055</u>	<u>20</u>
Total indebtedness	\$1,551,055	68%
Preferred stock, 5½%	55,360	2
Common stock equity -		
Common stock	\$633,900	
Surplus	<u>37,376</u>	
Total common stock equity	<u>671,276</u>	<u>30</u>
Total	<u>\$2,277,691</u>	<u>100%</u>

Capital Expenditures

It appears that applicant's service area now is being rapidly developed and that applicant has become faced with the necessity of increasing its investment to provide pumping, storage, and distribution facilities for the entire Palos Verdes peninsula. It has budgeted the sum of \$2,000,000 to liquidate indebtedness and to provide the cost of constructing a new 2400 GPM pumping station at the Metropolitan Water District outlet, and additional pipeline facilities and storage facilities of 8,000,000 gallons capacity, together with related expenditures. A summary of the budgeted expenditures and the amounts heretofore expended is as follows:

	<u>Amount Budgeted</u>	<u>Amount Expended</u>
(1) Retire Notes Payable	\$ 273,000.00	\$ 273,000.00
(2) System Construction, Palos Verdes Peninsula:		
Pipelines	560,000.00	380,241.00
Storage	492,000.00	141,775.00
Pumping	<u>135,000.00</u>	<u>120,301.00</u>
	\$1,182,000.00	\$ 642,317.00
(3) 11,000 Feet 12" and 14" Pipelines	\$ 88,000.00	\$ -
(4) Planning, Engineering, and Supervision	118,800.00	99,726.00
(5) Land for Reservoir Sites	70,000.00	5,294.00
(6) Financing and Legal Expense	50,000.00	35,261.00
(7) Interest Capitalized	10,600.00	8,684.00
(8) Services, Meters and Hydrants	80,400.00	51,908.00
(9) Additions and Improvements to Present System	<u>121,200.00</u>	<u>38,466.00</u>
	\$2,000,000.00	\$1,154,666.00

From a review of applicant's records it appears that the expenditures have been provided from the following sources:

First mortgage bonds	\$ 600,000
Short-term borrowings	500,000
Earnings and working capital	<u>54,666</u>
Total	<u>\$1,154,666</u>

#### Reclassification of Authorized Stock

*OTM* Applicant's authorized capital stock has been divided into shares of common stock and shares of 5½% preferred stock and 3% preferred stock. It appears that by Decision No. 51191, dated March 15, 1955, applicant was authorized, among other things, to issue and sell \$500,000 par value of its 5½% preferred stock, but that it was unable to find a purchaser of the shares of the type presently authorized by its articles and has concluded that if it is to dispose of additional preferred shares it is necessary for it to amend its articles to provide for preferred shares having characteristics different from those presently authorized. Accordingly, it has taken steps to amend its articles of incorporation so as to provide for an authorized capital stock as follows:

	<u>Par Value</u>	<u>Number Of Shares</u>	<u>Total Par Value</u>
Preferred			
Class A Preferred	\$ 20	3,000	\$ 60,000
Parity Cumulative Preferred	100	20,000	2,000,000
Special Preferred	20	10,000	200,000
Junior Preferred	<u>100</u>	<u>30,000</u>	<u>3,000,000</u>
Total Preferred	-	63,000	5,260,000
Common	<u>20</u>	<u>75,000</u>	<u>1,500,000</u>
Total	-	<u>138,000</u>	<u>\$6,760,000</u>

Under the articles, as amended, the holders of the Class A Preferred shares presently outstanding and of the proposed Parity Cumulative Preferred Shares and Special Preferred Shares will be entitled to cumulative dividends at the rate of 5½% per annum on a

parity with each other before any dividends are declared or paid on the Junior Preferred or Common Shares. Thereafter the holders of the Junior Preferred Shares will be entitled to cumulative dividends at the rate of 3% per annum before any dividends are declared or paid on the Common Shares. The amended articles provide that there will be a sinking fund applicable to Series 1 of the Parity Cumulative Preferred Shares which will call for payment into such fund of 2½% of the par value of such shares for each of the years 1957 to 1960, inclusive, and of 6% of the par value annually thereafter.

#### Sale of Parity Cumulative Preferred Shares

It appears that applicant now has made, or is making, arrangements with Allstate Insurance Company for the sale to that company, for cash, at par, of \$500,000 in par value of its Parity Cumulative Preferred Shares, such shares to be designated as Series 1. The agreement with the insurance company provides for the sale of \$300,000 of the total amount on or before January 31, 1956, and for the sale of the remaining \$200,000 between March 15, 1956, and April 30, 1956.

#### Sale of Special Preferred Shares

Applicant desires to effect a distribution of its shares of stock to its employees and to its customers, and it therefore proposes to offer \$200,000 par value of its Special Preferred Shares to Title Insurance and Trust Company, as trustee under its profit-sharing plan, and to its customers, for cash, at par.

#### Sale of Junior Preferred Stock

In making the application to sell \$3,000,000 of 3% Junior Preferred Shares, applicant estimates that its past and future obligations on account of advances in aid of construction over a five-year period will aggregate \$3,000,000.

Application of Proceeds

Applicant intends to use the proceeds from the sale of its 5 $\frac{1}{2}$ % preferred shares of both classes to liquidate its outstanding short-term notes of \$500,000 and to meet in part its estimated capital requirements.

A review of applicant's records indicates a continuing growth of population in its service area and an increasing volume of water purchases from the Metropolitan Water District. Applicant's active service connections have increased from 2,830 at the beginning of 1954 to 4,241 at the close of November of 1955. Its reported net investment in plant has increased during this same period from \$1,216,925 to \$2,320,077. Its operating revenues similarly have increased from \$289,597 in 1953 to \$296,700 in 1954 and to \$372,778 for the twelve months ended November 30, 1955.

Conclusion

Upon considering the application the Commission is of the opinion that applicant will have need for the proceeds from the sale of the Parity Cumulative Preferred Shares and the Special Preferred Shares to pay indebtedness and to finance capital costs, and that the issue and sale of these shares in the amounts now requested should be authorized. The company's financial statements clearly show that it does not have sufficient cash on hand for these purposes and they indicate that the earnings from operations should be ample to service the two new issues. The issue of the stock, as proposed, will improve applicant's structure by reducing the proportion of the indebtedness and by providing a larger base of stock capital.

As to the sale of the 3% Junior Preferred Shares the company

*CEM*  
has submitted no information upon which the Commission can base an order with respect to the reasonableness of the amount requested or to the issue for the purpose indicated. Moreover, it would appear that the purpose of the issue of such shares as stated by applicant is not contemplated by Rule A-12 of the Water Main Extension Rules promulgated by Decision No. 50580 issued by the Commission in Case No. 5501 on September 28, 1954. Accordingly, this portion of the application will be dismissed.

The approval herein indicated is for the issuance and sale of the said Parity Cumulative Preferred Shares and said Special Preferred Shares only, and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

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 from the sale of the Parity Cumulative Preferred Shares and Special Preferred Shares 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; and that the request to issue 3% Junior Preferred Shares should be dismissed; therefore,

IT IS HEREBY ORDERED as follows:

1. Palos Verdes Water Company may issue and sell not exceeding \$500,000 par value of its Parity Cumulative Preferred Shares, for cash, at par, on or before June 30, 1956, and may enter into a

purchase agreement with Allstate Insurance Company with respect to the sale of such shares.

2. Palos Verdes Water Company may issue and sell not to exceed \$200,000 par value of its Special Preferred Shares, for cash, at par, to Title Insurance and Trust Company, as trustee, and to its customers.

3. The request of the Palos Verdes Water Company to issue \$3,000,000 par value of Junior Preferred Shares is dismissed.

4. Palos Verdes Water Company shall use the proceeds from the sale of said \$500,000 of Parity Cumulative Preferred Shares and said \$200,000 of Special Preferred Shares to pay notes of \$500,000 and to finance construction costs.

5. Palos Verdes Water Company 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.

6. The authority herein granted to issue and sell Parity Cumulative Preferred Shares and Special Preferred Shares will become effective on the date hereof. In other respects this order will become effective 20 days after the date hereof.

Dated at Los Angeles, California, this 31<sup>st</sup> day of January, 1956.

[Signature]  
President

[Signature]

[Signature]

[Signature]

[Signature]  
Commissioners