

ORIGINAL

Decision No. 54064

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SAN GABRIEL VALLEY WATER COMPANY for
Authority to Reclassify its Common
Stock and to issue New Common Shares
of the par value of \$10 per share.

Application No. 37092

Gibson, Dunn & Crutcher, by Max Eddy Utt
and John E. Skelton, for Applicant;
Theo. Stein, for the staff of the Commission

O P I N I O N

In this application, San Gabriel Valley Water Company seeks authorization to issue 138,240 shares of its common stock of the par value of \$10 each, in exchange for 2,880 no par value shares presently outstanding, and to issue and sell 11,760 shares of the \$10 par value stock for the purpose of financing the cost of capital additions.

The application was filed on July 1, 1955. A public hearing was held before Examiner Coleman in Los Angeles on September 19, 1955, at which time the matter was taken under submission. Thereafter, an order was entered setting aside submission so as to receive evidence of costs of materials, supplies and equipment and shares of water stock. Studies have been made and later financial statements have been received. The matter now is ready for decision.

Applicant is engaged in the distribution of water in portions of the Counties of Los Angeles and San Bernardino. It was organized in 1945 and on or about November 1 of that year acquired

the properties of predecessor companies engaged in business in or about El Monte, Fontana and Whittier. Presently, it has authorized capital stock of 5,000 common shares without par value, of which 2,880 shares are issued and outstanding and are carried on the balance sheet at a stated value of \$313,443. The book value is approximately \$500 a share.

A condensed statement of applicant's assets and liabilities as of June 30, 1956, is as follows:

<u>Assets</u>		
Utility plant -		
Fixed capital	\$7,183,186	
Work in progress	<u>588,063</u>	
	7,771,249	
Less: - depreciation reserve	<u>1,182,125</u>	
Net utility plant		\$6,589,124
Other investments		6,934
Current assets -		
Cash and working funds	\$ 107,992	
Deposits with trustee	594	
Accounts receivable	82,090	
Materials and supplies	<u>148,236</u>	
Total current assets		338,912
Deferred debits		<u>55,466</u>
Total		<u>\$6,990,436</u>
 <u>Liabilities and Capital</u> 		
Bonds		\$3,500,000
Current liabilities		382,764
Deferred credits		95,617
Donations and advances		1,561,988
Net worth -		
Common stock	\$ 313,443	
Capital surplus	307,277	
Earned surplus	<u>82,247</u>	
Total net worth		<u>1,450,067</u>
Total		<u>\$6,990,436</u>

It has not been applicant's practice to pay dividends on its outstanding stock. Its records show that it has been faced with a substantial program of construction and that it has financed itself in part with retained earnings. The following tabulation

prepared from applicant's filed annual reports indicates its growth experience and sets forth its reported investment in fixed capital and its service connections at the end of each of the last five years, and its annual gross revenues and net income available for common stock:

	<u>Fixed Capital</u>	<u>Service Connections</u>	<u>Operating Revenues</u>	<u>Net Income</u>
1951	\$4,081,891	26,968	\$ 799,173	\$101,459
1952	4,933,426	29,586	834,497	62,668
1953	5,706,815	31,983	1,068,552	108,077
1954	6,501,600	34,749	1,177,649	98,211
1955	7,216,698	38,220	1,290,875	140,277

Information filed with the Commission shows that applicant's common shares have been and are held by or for members of the family of R. H. Nicholson. Applicant now reports that for some time it has had under consideration the proposition of making a limited number of shares available to such of its employees and others who may wish to purchase them, that it is of the opinion the acquisition of stock by its employees will strengthen employee relations and will develop increased interest in the company's affairs, and that such stock can be placed if offered at a price of \$10 a share. Applicant's 1955 annual report shows that it had 100 employees, exclusive of general officers.

Before undertaking the sale of shares of stock to outside interests, the present shareholders desire to capitalize their reported investment through the issue of additional shares against the retained earnings. At the same time, they desire to reclassify the authorized capital stock so as to provide for \$10 par value shares instead of no par value shares. They intend to accomplish the exchange of shares and the capitalization of the items of surplus through the issue of 48 shares of the \$10 stock, of the aggregate par value of \$480, in exchange for each no par share now

outstanding. The effect of the transaction is indicated in the following tabulation:

	<u>June 30,</u> <u>1956</u>	<u>Pro forma</u>
Capital stock	\$ 313,443	\$1,382,400
Capital surplus	307,277	-
Earned surplus	<u>829,347</u>	<u>67,667</u>
Total	<u>\$1,450,067</u>	<u>\$1,450,067</u>
Number of shares	2,880	138,240
Book value per share	\$ 503	\$ 10

Upon completion of the recapitalization as thus proposed, applicant intends to offer the additional 11,760 shares to its employees and others for sale at par for cash, with no commission or brokerage fees to be paid thereon, and to use the proceeds for the acquisition of property and for the construction, completion, extension or improvement of its facilities. It reports that its expenditures for additions and betterments are running at about \$60,000 a month and that funds therefor to the extent of 60% of the total amount will be available from outstanding loan commitments, leaving a balance of 40% to be obtained from other sources and to be met in part through the proposed stock offering.

Applicant's proposal to capitalize a portion of its surplus accounts and to issue additional common shares will result in the retention of earnings in the business and in the establishment of a larger volume of permanent equity capital in its financial structure. However, it will be noted that the proposal at the outset will result in earned surplus of \$67,700, as compared with outstanding stock of \$1,382,400 par value, without giving consideration to the proposed offer to employees and others.

We have considered this application and are of the opinion that applicant should not reduce its surplus to the extent provided in its present plans, but should retain a larger balance toward future contingencies. The order herein, accordingly, will authorize applicant to issue 128,240 shares of the \$10 par value stock instead of 138,240 as requested, in exchange for the present outstanding no par shares, and to sell 11,760 shares of \$10 par value stock for construction purposes. The approval herein given is for the issue of stock 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, except as otherwise indicated. No authorization is given applicant to transfer contributions in aid of construction to capital stock or surplus accounts.

The staff of the Commission has made a review of certain charges recorded by applicant in acquiring properties, particularly shares of stock of Fontana Union Water Company, which were purchased from applicant's president and from a trust of which he is trustee, and materials purchased from Vesco, an affiliated corporation, about which there was some difference of opinion as to the reasonableness of the costs for rate-fixing purposes. Following discussions by representatives of the company and staff members, a memorandum of conference and agreement was prepared by the parties and filed as part of the record in this proceeding.

The memorandum provides, among other things, for a reduction of \$29,461.27 in the cost of the water shares and for the reduction, reported at approximately \$66,600, in the cost of materials purchased from Vesco and for the termination by applicant of purchases from Vesco.

We have reviewed the memorandum and approve it for rate base purposes. We will not require applicant to record on its corporate books the adjustments in rate base, except as set forth in the order herein.

O R D E R

A public hearing having been held on the above-entitled matter and the Commission 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 140,000 shares of stock 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. San Gabriel Valley Water Company may issue not exceeding 128,240 shares of its common stock of the par value of \$10 each in exchange for shares of stock presently outstanding and in reimbursement of its treasury for earnings invested in its properties and may distribute such shares to its shareholders of record.
2. San Gabriel Valley Water Company may issue and sell on or before September 30, 1957, not to exceed 11,760 shares of its \$10 par value common stock, for cash, at not less than par without brokerage or commission, for the purpose of financing the cost of construction expenditures.
3. San Gabriel Valley 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. It shall file, as soon as available, a copy of each letter or notice to its employees, or others, inviting subscriptions to its shares of stock.

4. San Gabriel Valley Water Company, within 30 days after the effective date of this order, shall make appropriate entries on its books of account so as to eliminate the sum of \$29,461.27 from its recorded investment in stock of Fontana Union Water Company, with a reduction in its remaining liability with respect thereto, and shall file a copy of each of such entries.

5. San Gabriel Valley Water Company, within 30 days after the effective date of this order, shall establish and it shall thereafter maintain as a part of its accounting records a memorandum account or accounts in which it shall record the gross adjustment to its rate base relating to purchases from Vesco and the partial offset thereto representing depreciation accumulations thereon. Annually thereafter as of December 31, until the depreciation accumulations offset the amount of the gross adjustment, it shall record in the memorandum account or accounts, as an adjustment to the depreciation accumulations, an amount representing the estimated annual accrual applicable to the gross adjustment.

6. The authority herein granted will become effective when San Gabriel Valley Water Company has filed with the Commission a stipulation, duly passed by its board of directors, in which it agrees to discontinue purchases from Vesco.

Dated at San Francisco, California, this 13th day of November, 1956.

[Signature]
President
[Signature]
[Signature]
[Signature]

Commissioner Rex Hardy, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioners